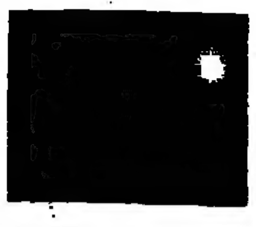
FINANCIAL TIMES

World Business Newspaper http://www.FT.com

THURSDAY DECEMBER 31 1998



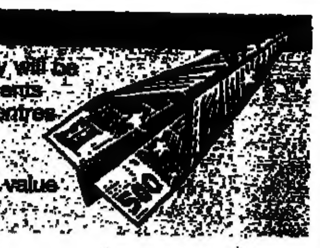
FT Weekend Saturday
There is no escape from the bomb: the millennium crisis has already begun

The near-crash of '98
The week the markets seized up
Gerard Baker, Page 3

Russia
Kompromat - the sleazy new currency of power
Page 11

Poaching accountants
Pyramids provide the inspiration
Page 17

Launch of the euro



At midnight tonight a new currency will be born. On Saturday, FT correspondents report from the world's financial centres on the frantic preparations for the opening of markets on Monday. Plus: a detailed table of the euro's value against the other main currencies

WORLD NEWS

Greek Cypriots protest against missiles decision

Glafkos Clerides, the Greek Cypriot president, came under attack over his decision not to deploy Russian missiles on the divided island, with one party voting to leave his coalition government in protest. Page 2

Four Germans freed in Yemen
Yemeni tribesmen have freed four German hostages kidnapped more than three weeks ago, after authorities warned they would use force to resolve the issue. Page 4

China reports 7.8% GDP growth
China has reported what is likely to be the fastest economic growth in Asia this year, with the 7.8 per cent expansion in gross domestic product just below the government target. Page 12

Asian monetary union mooted
Joseph Yam, chief executive of the Hong Kong Monetary Authority, floated the notion of an Asian version of the euro, saying unity would bolster the region against speculative attack. Page 2

Threat to block Israeli budget
Israel's ultra-Orthodox religious parties said they would block further readings of the budget unless the Knesset banned membership of religious councils by non-Orthodox Jews. Page 4

Vietnam ready for value-added tax
Vietnamese consumers are bracing for the introduction of value-added tax, in a step towards modernising the country's taxation system. Page 4

Hindu mobs attack churches
India's prime minister has tried to distance his government from a destructive spree against Christians, after Hindu mobs were reported to have burned two Catholic churches in the western state of Gujarat. Page 4

Venice flood barrier plan axed
The Italian government has formally blocked a $2.5bn plan to build barriers at the mouth of the Venice lagoon to protect the city from high waters. Page 2

UK controls on Chinese imports
Britain has announced new import controls on China, joining the US in a move aimed at keeping an Asian tree-killing beetle at bay. Page 2

Five to join UN Security Council
Canada, Malaysia, Namibia, the Netherlands and Argentina on Friday will start their two-year terms on the 15-member United Nations Security Council.

French unemployment rate dips
France's unemployment rate dropped slightly to 11.5 per cent in November, but nearly 3m people remain without a job.

Poland ready for EU by 2002
Polish president Aleksander Kwasniewski said his country would be ready to join the European Union by the end of 2002.

Air France flight lands safely
An Air France flight with 59 passengers on board landed safely at Lyons airport after losing a wheel shortly after take-off.

BUSINESS NEWS

BP-Amoco merger deal gets go ahead from US regulators

US antitrust regulators gave the green light to the union of oil companies British Petroleum and Amoco. The two groups are to dispose of 134 petrol stations and reduce their influence in the wholesale market for petrol as a condition of approval. Page 12

LVMH chief executive Bernard Arnault resigned from the board of Diageo, the UK food and drink company. The move is seen as leading to the sale of the French luxury goods group's 10.89 per cent stake in Diageo. Page 13; Lex, Page 12

Valmet and Rauma, the two Finnish engineering groups planning a merger to create one of the world's largest forestry equipment companies, announced weaker-than-expected 10-month profits. Page 15

A spate of share listings by internet companies is set to test US stock markets during the first quarter of 1999, as debate continues to rage on Wall Street about the high valuations achieved by online stocks. Page 13; World stocks, Page 30

Rexam, the UK packaging and printing group, has been unable to make a full financial analysis of PLM, the Swedish packaging company for which it has bid SKr5.13bn ($634m), after being denied access confidential commercial information. Page 16

Nissho Iwai, the troubled Japanese trading house, secured a ¥600bn ($5.2bn) line of credit from Japanese banks and revealed a wide-ranging restructuring programme. Page 13

Alfred McAlpine, the UK construction group, has won an £80m ($134m) contract to build part of the British Channel tunnel rail link. Page 16

Maruti Udyog, India's largest carmaker, cut the price of its best-selling Maruti 800 by nearly 12 per cent to stimulate demand. The Maruti 800, already one of the cheapest cars in the world, will sell for $4,352. Page 14

Hungary has approved a capital injection of Ft152bn ($703m) to recapitalise the troubled Postabank, the country's fifth largest commercial bank. Page 14

Independent traders on the London International Financial Futures and Options Exchange have had their capital frozen after UK regulators shut two derivatives firms in the biggest crisis for the market in almost four years. Page 13

Viag, the German industrial group, said it had increased its stake in Goldschmidt, the speciality chemicals business to 93.1 per cent. Page 14

Duisenberg 'will not quit' mid-term as ECB president

Central Bank chief reopens dispute with France on eve of single currency launch

By Wolfgang Münchau in Frankfurt

Wim Duisenberg, president of the European Central Bank, yesterday reopened a simmering dispute with France on the eve of the launch of the European single currency.

In an interview with the French newspaper *Le Monde*, Mr Duisenberg categorically ruled out retiring after four years of his eight-year term, as demanded by President Jacques Chirac of France.

The dispute could overshadow the opening weeks of the euro, which will replace 11 of Europe's national currencies at midnight tonight.

The ECB will simultaneously take on responsibility for monetary policy in the euro-zone.

At a European Union summit in May this year marked by wrangling over the bank presidency between France and Germany, President Chirac reluctantly agreed to a compromise that secured Mr Duisenberg – strongly backed by Germany – the job of ECB president, but only after he promised to retire early in his eight-year term.

President Chirac said a few weeks after the summit that Mr Duisenberg, who is Dutch, had promised him privately he would retire by July 1 2002. That would open the way for Jean-Claude Trichet, governor of the Bank of France, as successor.

Asked by *Le Monde* whether he would quit after four years, Mr Duisenberg said: "La réponse est non." He added pointedly that he would have preferred not to have been asked that question.

ECB officials yesterday tried to play down Mr Duisenberg's remarks, insisting he had never committed himself to retiring after four years.

But the sensitive timing of the statement – and the fact that it was made to a French newspaper – appear to be clear signals to France that Mr Duisenberg plans to remain president for longer.

Disputes between France and Germany have overshadowed previous landmarks on the road to a single currency, not least the May summit that decided formally that economic and monetary union would proceed with 11 members.

ECB governors and European finance ministers are due today to make their final preparations for the launch of the single currency with a decision to fix the conversion rates between the euro and the 11 participating currencies.

These rates will be determined to a precision of six relevant digits and will remain unchanged until the phasing out of national banknotes and coins in 2002.

Proposed conversion rates, based on the latest market exchange rates, will be put forward by central bank governors at a videoconference meeting this morning.

The rate is expected to be close to DM2 to the euro, which would be in line with the *Financial Times'* synthetic euro – a hypothetical exchange rate for the new currency published for the last time today.

Mr Duisenberg will take part in the videoconference from the Belgian central bank in Brussels. He will then join finance ministers, who will formally decide the rates later this morning.

To celebrate the event, 3,000 balloons marked with the new € symbol will be released over Brussels.

The announcement of the rates will trigger a race by central banks, banks and financial institution to update their systems before Monday, when trading in euros and euro-denominated securities will start.

How the new currency will trade, Page 2
Euro-zone, Page 19
Countdown to the euro, www.ft.com/emu

'The euro comes' proclaims a placard installed above the DAX index board at the Frankfurt stock exchange, causing a trader to pause for thought yesterday during the last session of the year *Picture: Reuters*

Finland's feverish welcome is tinged with suspicion

North Karelia has more pressing problems than the euro, reports **Tim Burt**

From the peak of Ukko-Koli, the highest point in eastern Finland, you look east to one of the world's economic disaster areas, Russia. The view west, from tomorrow, is across a new global economic power, the euro-zone.

And because Finland is an hour ahead of central European time, it will tomorrow become the first and most easterly part of the European Union to join the euro-zone.

The Finnish government, which assumes the EU presidency next summer, has been an enthusiastic champion of the single currency – hailing the project as a platform for economic stability in Europe. Indeed, Paavo Lipponen, the Finnish prime minister, told reporters yesterday: "Belonging to the euro-zone underpins the long-term economic policy line that has put the Finnish economy on a rising growth track."

But in North Karelia, which shares a 310km border with Russia, the euro and the EU itself are regarded with suspicion. Some 55 per cent of people in the province voted against EU membership in 1994.

Juhani Meriläinen, mayor of Joensuu, the regional capital founded 150 years ago by Czar Nicholas I, says North Karelia has more pressing problems to deal with than ensuring a smooth transition to the euro. Although many local manufacturers will embrace the currency from the outset, local politicians want support from the European Commission in Brussels for other projects.

"This is the poorest region of Finland," according to Mr Meriläinen. "Unemployment is high, many people are moving away and cross-border co-operation with Russia has not really worked as we had hoped."

In outlying parts of the region, unemployment levels exceed 30 per cent and up to a third of its farms have disappeared in the past decade. The population is shrinking by 0.5 per cent a year and GDP has fallen below 75 per cent of the EU average.

Nevertheless, like towns throughout the 11-country euro-zone, Joensuu is preparing feverishly for the start of the single currency tomorrow. Retailers have begun to advertise prices in both the markka and the euro, while the city's banks are close to launching euro-denominated mortgages and savings accounts.

The city council will present its 1999 budget in euros, although it will not fully convert to the single currency until 2001. In the meantime, local companies such as Perlos, the fast-growing plastics group that produces mobile phone casings in Joensuu, are planning to switch their accounts and purchasing systems to the single currency.

In a sign of increased business links within the euro-zone, the city yesterday hosted a joint seminar with the northern Italian province of Treviso to enhance co-operation among small and medium sized businesses.

In spite of such moves, local politicians believe it is more important to extract support from Brussels for other projects – particularly attempts to encourage new industrial investment and training programmes.

Risto Poutiainen, planning director for the North Karelian regional council, hopes the region will qualify for Objective 1 regional aid from the EU, the assistance normally reserved for areas of extreme rural poverty or industrial blight.

"It really is a question of survival, and that is clearly more important for us than the euro."

US and UK attack missile site in Iraq

By Roula Khalaf in Baghdad

Tensions over Iraq's no-fly zones escalated yesterday when the US and Britain attacked an Iraqi missile site in the south of the country after coming under Iraqi fire.

US officials said Iraq had fired between six and eight missiles at US and British jets conducting a routine patrol over the southern no-fly zone. US and British warplanes responded by firing two missiles and dropping laser-guided bombs.

A spokesman for the Iraqi air-defence command in Baghdad told the Iraqi News Agency that Iraqi forces had fired surface-to-air missiles at "hostile" planes violating Iraqi airspace yesterday as they tried to approach an air-defence position, and "almost certainly" shot down one of the planes. He said the western planes then came back and unleashed their missiles on farming villages, killing a peasant, wounding two people and destroying a tractor.

US and British officials reported that all warplanes had returned safely to base.

Iraq this week reiterated its rejection of the no-fly zones, provoking a new crisis only 10 days after four-days of strikes from the US and Britain.

Yesterday's clash was the second time in three days Iraq had challenged the no-fly zones imposed by the US and its allies. Baghdad considers the restrictions a breach of its sovereignty.

US warplanes on Monday attacked an anti-aircraft site in northern Iraq after Iraqi forces launched surface-to-air missiles at the planes. Iraq said the attack left four soldiers dead. It also claimed it had shot down a US jet, but US officials denied this.

The US and Britain yesterday promised to continue patrols, in spite of Iraq's persistent defiance. In Washington, David Leavy, White House national security spokesman, said the patrols were essential to the US strategy of containing Iraqi President Saddam Hussein. The zones were set up after the 1991 Gulf war to protect Iraq's Kurds living in the north and the Shias in the south from the central government.

At the Pentagon, Colonel Richard Bridges, a spokesman, said he had no indication Iraqi missiles were "anywhere near successful". He said Iraqis often turn on their targeting radar at the last second, which makes it difficult for them to hit a US or British warplane.

Iraqi officials argue that the zones are not stipulated by a United Nations resolution and their enforcement is part of continuing US and British aggression against Iraq.

Taha Yassin Ramadan, Iraq's vice-president, said on Tuesday Iraq was flying its own planes in the zones, though diplomats predicted the daily Iraqi sorties were flying on the edge of the zones rather than inside.

WORLD MARKETS

STOCK MARKET INDICES		
New York: Lunchtime		
Dow Jones Ind Av	9315.57	(-5.41)
NASDAQ Composite	2169.96	(-11.81)
Europe and Far East		
CAC40	3942.66	(+51.59)
DAX	5002.39	(-29.49)
FTSE 100	5882.6	(-58.9)
Nikkei	13,842.17	(-4.73)
US Lunchtime RATES		
Federal Funds	4.6875%	
3-mth Treas Bills: Yld	4.54%	
Long Bond	102[illegible]	
Yield	5.09%	
OTHER RATES		
UK: 3-mo Interbank	6¼%	(6¼)
UK: 10 yr Gilt	136.62	(138.28)
France: 10 yr OAT	136.97	(136.57)
Germany: 10 yr Bund	106.87	(106.76)
Japan: 10 yr JGB	99.309	(99.573)
NORTH SEA OIL (Argus)		
Brent Dated	$10.305	(10.40)

GOLD		
New York: Comex		
Feb	$288.1	(288.1)
London		
	$287.75	(287.35)
EXCHANGE RATES		
Dollar		
New York: Lunchtime		
£	1.6615	
DM	1.6815	
FFr	5.62	
SFr	1.3845	
Y	114.905	
London:		
£	1.6709	(1.6628)
DM	1.672	(1.6722)
FFr	5.6045	(5.6077)
SFr	1.3705	(1.3631)
Y	114.715	(115.155)
Tokyo Close		Y 115.70
Sterling		
DM	2.7936	(2.6139)

London · Leeds · Paris · Frankfurt · Stockholm · Milan · Madrid · New York
Chicago · Los Angeles · Tokyo · Hong Kong

CONTENTS

WORLD NEWS

DEFENCE DISPUTE PRESIDENT CLERIDES URGED TO RESIGN OVER DEPLOYMENT OF WEAPONS IN CRETE

Cyprus missiles decision under attack

By Andreas Hadjipapas in Nicosia and Agencies

Glafkos Clerides, the Greek Cypriot president, came under fierce attack yesterday over his decision not to deploy Russian-made missiles on the divided island, with one party voting to leave his coalition government in protest.

Two party leaders urged Mr Clerides, 80, to resign, while many Cypriots said they felt "disillusioned" by Tuesday's decision, under which the $425m of surface-to-air missiles are likely to be deployed on the Greek island of Crete and not in Cyprus.

Vassos Lyssarides, leader of the socialist Edek party, said the decison would be seen as bowing to "Turkish blackmail".

Western allies of Greece and Turkey heaved a sigh of relief yesterday at a move expected to cool tension between two Nato partners as the S-300 missiles stood packed and ready for shipment from a Russian port.

Turkey, which sponsors a breakaway Turkish Cypriot mini-state, had threatened to destroy the missiles if they were deployed on the island. It said yesterday they would still increase tensions in the Aegean if sent to Crete, as Greece and Cyprus now intend.

"I find it incredibly wrong that one Nato member country should bring missiles to threaten another Nato country," said Ismail Cem, Turkish foreign minister.

Mr Clerides, however, faced more immediate difficulties at home. Dr Lyssarides said Edek's political bureau had decided to withdraw from the government, although a final decision would have to wait until a meeting of the party's central committee on Saturday.

"The people are indignant," he said. "It's a political defeat without a fight, without any resistance."

The centrist Democratic party, led by former president Spyros Kyprianou, announced that from now on it would vote against any government proposal on defence allocations brought to parliament "until they make clear to us what we mean by defence". The party holds 10 of the 56 seats in parliament.

But Mr Clerides was not entirely without support for Tuesday's decision, which he stressed was his responsibility alone.

Britain joined the US in welcoming the Greek Cypriot decision. Austria, holder of the European Union presidency, said the move showed Cyprus was fit for entry to the bloc. George Vassiliou, another former president who heads Cyprus' negotiating team in accession talks with the EU, described Mr Clerides' decision "courageous and correct".

A snap opinion poll by the private television station Antenna, broadcast last night, suggested that 71 per cent of Greek Cypriots favoured deployment of the missiles in Cyprus.

Currency finds its heart in France

By Samer Iskandar in Paris

"X", as on all good treasure maps, marks the spot – in this case the geographical heart of the new euro-zone as discovered by France's official geographic institute in a field about 150km south of Paris.

Tomorrow officials of the Cher region will march to the spot christened "euro-centre" just a few metres from the farm of Paul Berbain, a 64-year-old retired farmer, and unveil a granite plaque.

The heart of the euro-zone, is decidely rural. Photographs of Mr Berbain's farm show a run-down barn surrounded by fields of grazing cows. Mr Berbain says he has "always been pro-European".

The Institut Géographique National says the plaque will be unveiled precisely at X=618.952, Y=2282.849 on the Lambert II scale, pinpointed to within a margin of error of 200 metres.

As complicated as that sounds, the process of finding the co-ordinates was apparently simple.

"The author of the calculations took only a few minutes on his computer to find the result, based on digitalised maps," the institute said.

One mathematician visualised euro-centre as "where you would put the hook if you wanted to suspend horizontally a cardboard cut-out of the countries joining the euro".

Reassuringly for France, that hook – inserted at the commune of Blancafort, population 2,000 and known mainly for its witchcraft museum – is not far from where one would place a hook in France's own geographic centre, at the commune of Vesdun.

History, however, suggests Blancafort may not enjoy centre stage for long, with several countries expected to join the single currency within the next few years. This, inevitably, will shift the fulcrum point of the euro-zone.

In fact, "euro-centre" lies several hundred kilometres south-west of the geographic centre of the full European Union, in Viroinval, Belgium. That centre takes into account the four so-called "euro-outs" that will not be in the first wave of the single currency: the UK, Greece, Sweden and Denmark.

EU-centre, however, has already had to move several times, with each successive expansion of the EU from six to 15 countries over some 40 years.

Financial market traders wary of second guessing the euro

Currency experts are still divided over how Europe's newcomer will fare in the first few months of its life, writes **Alan Beattie**

The last thing any trader in the financial markets can say is that the launch of the euro at midnight on December 31 will come as a surprise.

But although the creation of the European single currency has not seriously been in doubt for some time, those who will buy and sell the euro every day of their working lives remain wary of leaping to conclusions about what sort of currency this will be.

There is a growing feeling that although the euro is likely to be volatile, it may well strengthen in the medium term against the world's other large currency, the US dollar. But analysts are still divided on how to predict the euro's short-term movements – in the first few months of its life.

Traders need to be able to guess how the new currency will move against the dollar from hour to hour and day to day, to help them time decisions on making deals and taking positions in the market.

Until now the only real clue to these movements has been the behaviour of the Ecu, an artificial currency that contains not only 10 of the 11 currencies entering European economic and monetary union (Emu) but also three European Union currencies staying out of the first wave, including sterling. Ecus will be convertible into euros at a one for one rate when the new currency starts.

The Ecu, however, may give a misleading picture of how the euro will behave. Tony Norfield of ABN-Amro in London has examined this problem closely. "Many people are just using the historical dollar/Ecu rate to project how the euro will move day-to-day," he says.

"But Ecu trading has taken place in thin and illiquid markets," he adds. And traders have discovered that they can make money putting together a synthetic Ecu by buying all the constituent currencies more cheaply than buying the real one. This could mean the Ecu has given misleading signals.

Mr Norfield says that to begin with, he is assuming the euro will follow the same patterns as the D-Mark on on a day-to-day basis.

As trading in the euro expands, the markets' attention will turn towards the fundamentals which will drive the currency. Here a consensus seems to be emerging that the euro will be strong but volatile.

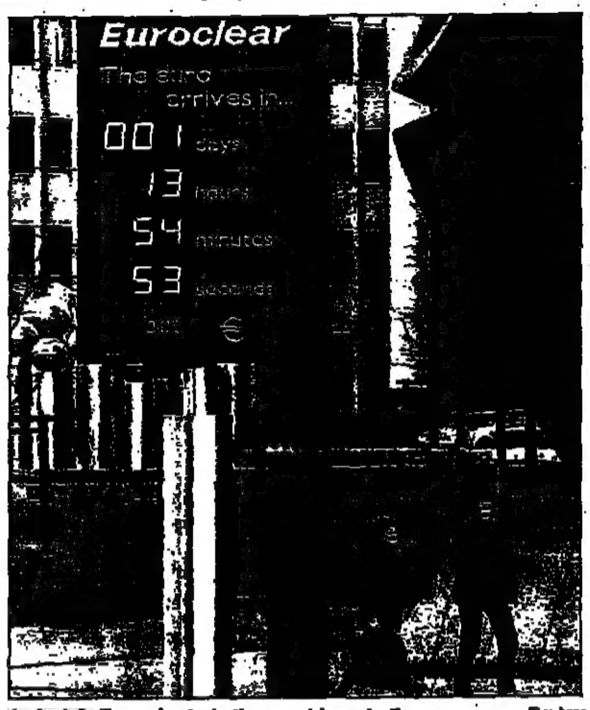
"The markets previously thought a broader Emu meant a weaker euro," said Avinash Persaud of J.P. Morgan. "But the sheer size of the euro-zone means that the euro has much more potential to be a reserve currency than many think."

With the European Central Bank (ECB) keen to take on the mantle of inflation hawk from the Bundesbank, few doubt interest rates in the euro-zone will be kept high enough to attract investors.

Even if the euro-zone's politicians loosen the fiscal purse-strings, most observers expect the ECB to compensate by raising interest rates to keep the lid on demand. This loose fiscal policy/tight monetary policy stance was exactly the combination that drove the dollar up to record levels during the Federal Reserve chairmanship of Paul Volcker in the 1980s.

But though the euro may be strong, the size of the area covered by the currency may mean the development of a policy of benign neglect towards the external value of the euro.

"Rather than several open economies who care a lot about their exchange rate, there will now be one large closed economy. As time goes on, we may see the politicians of Europe lose their enthusiasm for exchange rate management as they see that the external position is less important for them," says Mr Persaud.



A clock in Brussels starts the countdown to the euro — Reuters

This contributes to a growing belief that two large closed economies, the US and the euro-zone, rubbing up against each other could produce large swings in the exchange rate between their currencies.

Goldman Sachs, the US investment bank, has chosen volatilities in euro/dollar foreign exchange options as one of its "top 10 trades" for 1999. The options market has already priced in more noise in the euro/dollar rate than there was between the dollar and the D-Mark. But Jim O'Neill at Goldman Sachs in London thinks actual volatility could be higher still. "The euro can only be kept stable against the dollar by having more volatile interest rates," he said. "And as we have seen in earlier episodes, policymakers don't like doing that."

Whatever characteristics the euro takes on, it seems likely to be months or even years before traders settle down and acquire a familiarity with the new currency. With financial markets already scarred from huge swings in exchange rates in 1998, the euro is being launched into an environment in which the market does not even know where familiar currencies are going. Predicting the course of a new one is all but impossible.

Asian monetary union is mooted

By Louise Lucas in Hong Kong

Joseph Yam, chief executive of the Hong Kong Monetary Authority, the territory's de facto central bank, yesterday floated the notion of an Asian version of the euro, saying market unity would bolster the region against speculative attack.

Speaking two days before the euro's launch, Mr Yam called for discussions of an Asian monetary union to be slotted in to the region's agenda. Combining market muscle would put Asia in a stronger position and make individual countries less vulnerable to speculators, he said.

Hong Kong bore the brunt of speculative attacks last year, culminating in the August crisis, which spurred the government to launch a HK$118bn (US$15.2bn) share-buying programme to prop up prices and so frustrate the tactics of speculators.

"The fact that we are open, the fact that we are small, makes us vulnerable to manipulative play by market players with quite [sizeable] resources," said Mr Yam. "How do we tackle that? We cannot close our markets. We cannot overnight enlarge our markets. And how do we enlarge our markets? By unifying them in one way or another. One way is a common denomination."

However, he stressed that if the time was ripe to start talking about a common currency, it was not yet time to take any concrete steps. He noted that the euro would come into being on January 1 only after 50 years of discussion.

"All I'm doing is bringing this subject forward for discussion," Mr Yam said.

Asia has flirted with various initiatives, largely led by Japan, particularly since the regional crisis began in July last year. Japanese funding and backing has helped several countries. Efforts to create a deep, local bond market – driven largely by Hong Kong – pre-date the crisis.

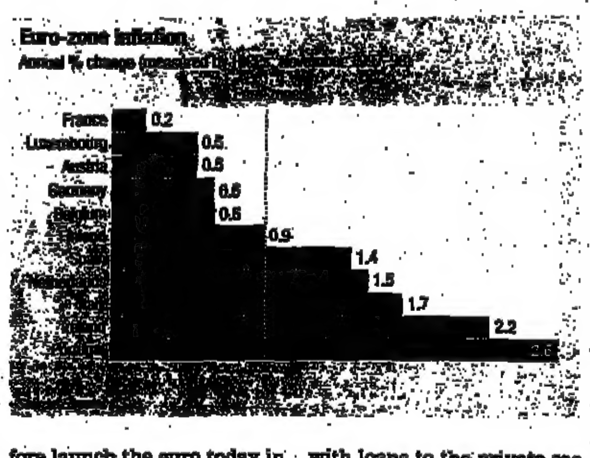
Inflation at record low

By Peter Norman in Brussels

Europe's single currency will be launched today against the backdrop of the lowest annual inflation in the 11-member euro-zone since records began.

Eurostat, the statistical office of the European Union, announced yesterday that euro-zone annual inflation fell to a provisional 0.9 per cent in November from 1 per cent in October and September and was well below the 1.6 per cent inflation of November last year.

November's year-on-year price rise was the lowest ever, based on a weighted average of the harmonised consumer price inflation figures for the 11 founders of the EU's economic and monetary union.



The euro-zone figures go back only to January 1996 but Eurostat said earlier national-based data indicated that inflation last month was at a record low.

Prices in the euro-zone were unchanged between October and November. European economics and finance ministers will therefore launch the euro today in conditions of price stability, which, according to the European Central Bank (ECB), exists when the year-on-year increase in harmonised inflation for the euro area is below 2 per cent.

Meanwhile, ECB monetary data yesterday eased fears that near zero inflation could be discouraging business activity. With its latest broad money figures, the ECB reported that credit growth in the euro area remained strong last month, with loans to the private sector growing 8.5 per cent on a 12-month basis.

The year-on-year growth rate of M3, the ECB's broad money measure, was 4.5 per cent in November, down from 5 per cent in October but unchanged from September's 4.5 per cent.

Growth of M3 measured by a three-month moving average of year-on-year figures was 4.7 per cent – slightly above the 4.5 per cent "reference value" for influencing monetary policy set by the ECB on December 1.

NEWS DIGEST

SENATE IMPEACHMENT PROCEEDINGS

Republicans split over witnesses in Clinton trial

Congressional Republicans are divided over whether they need to call witnesses in the US Senate impeachment trial of President Bill Clinton, scheduled to begin next month.

The team of Republicans in the House of Representatives who will present the case to senators want to bring forward a number of witnesses, who might include Monica Lewinsky, the former White House trainee at the centre of the perjury and obstruction of justice charges against the president.

But news reports yesterday said that Trent Lott, the party's leader in the Senate, is against the idea of calling witnesses, which could prolong the trial. He is reported to have told colleagues he would like to see a quick trial, beginning on January 11 and concluding by January 22.

Other Senate Republicans believe that will be insufficient for a thorough investigation of the charges against Mr Clinton, who was impeached by the House this month. Democrats and some Republicans have indicated they would prefer the trial to be curtailed with a vote to censure Mr Clinton.

Meanwhile, Senator John McCain of Arizona became the first Republican to begin formal preparations for a campaign for the presidency in 2000. He filed papers yesterday with the Federal Election Commission creating a presidential exploratory committee. **Gerard Baker, Washington**

Editorial Comment, Page 11

PAKISTANI POLITICS

Bhutto travel ban overturned

Benazir Bhutto, Pakistan's opposition leader and former prime minister, yesterday flew out of Karachi for Dubai after a court overruled a government ban on her departure from the country.

On Monday, immigration authorities stopped Ms Bhutto at Karachi airport, saying her name had been put on the Exit Control List because there were corruption cases pending against her in several courts.

Ms Bhutto's Pakistan Peoples party said she would stay in Dubai for several weeks visiting her children, who live there, after winning her appeal to the Lahore Accountability Court to be removed from the list.

Several cases of corruption and misrule were filed in Pakistani courts against Ms Bhutto by the government after she was sacked as prime minister in November 1996. She has denied the charges. **Reuters, Islamabad**

PROTECTION OF VENICE

Dam opposition endorsed

Italy yesterday endorsed recommendations put forward by a government environmental commission to abandon a controversial $2.5bn project for a series of floating dams at the mouth of the Venice lagoon to protect the city from high waters. But the new decree does not altogether scrap the so-called "Moses" dam project. Edo Ronchi, the environment minister, said the ambitious project could be reconsidered after a series of more urgent initiatives to protect Venice and its lagoon were completed.

Among these priority issues measures are raising the ground level of the city and the islands in the lagoon and the cleaning of polluted waters. Supporters of the dam project accused the government of hypocrisy, arguing that the floating dams were the only hope for the city. Opponents dismissed these as alarmist criticisms, claiming the dams would have endangered the entire lagoon's eco-system and increased water pollution. **Paul Betts, Milan**

US TRADE FEARS

Limits on steel imports urged

Seven US companies and the United Steelworkers of America union yesterday filed a petition with the US International Trade Commission (ITC) complaining that steel wire rod imports were seriously harming their industry.

"The onslaught of low-priced imports, now accounting for more than one third of domestic consumption, has seriously harmed the US wire rod industry," said Charles Owen Verrill, a lawyer for the companies.

The ITC will review the petition and, if it agrees with the petitioners, could recommend that the president act to limit imports. The process is likely to take eight months. An industry statement said imports of wire rod from countries outside the North American Free Trade Area (Nafta) had risen by more than 16 per cent in 1998, while overall imports were up by more than 60 per cent since 1993.

Wire rod is used for hundreds of applications, from coat hangers to cables. **Reuters, Washington**

ASIAN TREE-KILLING BEETLE

UK imposes controls

Britain yesterday announced new import controls on China, joining the US in a move to keep an Asian tree-killing beetle at bay. The new measures require all wooden crates and pallets originating in China to be free of signs of infestation or certifiably treated against the pest.

The rules will apply to Chinese imports arriving on British shores from February 15. The US imposed a similar ban this month. From December 17, US ports have required all Chinese imports packaged in wood to be treated against the wood-boring insect. **International Staff**

FINANCIAL TIMES

Published by The Financial Times (Europe) GmbH, Nibelungenplatz 3, 60318 Frankfurt am Main, Germany. Telephone ++49 69 156 850, Fax ++49 69 596 4481. Represented in Frankfurt by Colin A. Kennard as Geschäftsführer and in London by David C.M. Bell, Chairman, and Alan C. Miller, Deputy Chairman. The shareholder of the Financial Times (Europe) GmbH is Pearson Overseas Holdings Limited, 3 Burlington Gardens, London, W1X 1LE. Shareholder of this company is Pearson plc, registered at the same address.

GERMANY:
Responsible for Advertising content: Colin A. Kennard. Printer: Hürriyet International Verlagsgesellschaft mbH, Admiral-Rosendahl-Strasse 3a, 63263 Neu Isenburg ISSN 0174 7363. Responsible Editor: Richard Lambert, c/o The Financial Times Limited, Number One Southwark Bridge, London SE1 9HL.

FRANCE:
Publishing Director: P. Maraviglia, 42 Rue La Boétie, 75008 PARIS. Telephone (01) 5376 8254, Fax (01) 5376 8253. Printer: S.A. Nord Eclair, 15/21 Rue de Caire, F-59100 Roubaix Cedex 1. Editor: Richard Lambert. ISSN 1148-2753. Commission Paritaire No 67808D.

SWEDEN:
Responsible Publisher: Bradley P Johnson, Telephone +46 8 791 2345. Printer: AB Kvällstidningen Expressen, PO Box 6007, S-550 06, Jönköping.

R

PRICE WAR CUSTOMERS IN EUROPE'S BIGGEST TELECOMMUNICATIONS MARKET FACE TARIFF CONFUSION

German telephone call costs tumble

By Frederick Stüdemann in Bonn

German telephone users are entering the New Year with the happy prospect of further drops in the cost of calls, thanks to a vicious price war in Europe's biggest telecommunications market.

Any celebration, however, is likely to be accompanied by confusion at the widely varying tariff structures used by the 50 or so companies that now offer telephone services, 12 months after the market was liberalised.

There is also concern that some of the more innovative offers available, such as free calls at certain times on public holidays, may violate competition rules.

Jürgen Koppelin, parliamentary manager of the opposition Free Democratic party, has called on the country's telecommunications regulatory authority to enforce more price transparency.

"Consumers will only be able to profit from the [new price] offers when the rates offered are easily comprehensible," he said.

Consumers were confused by the advertisement of low call rates, which on closer study referred to specific types of calls, such as long-distance national calls made after business hours, he said. "It cannot be that telephone users are daily expected to read the new tariffs of the many providers like stock market listings just to find the best deal."

The wave of price cut announcements, unveiled almost daily in recent weeks, is evidence of the success of market liberalisation, according to the regulatory authority, a public body formerly attached to the telecommunications ministry. The cost of peak-time calls has fallen by up to 70 per cent.

The regulatory authority estimates that turnover in the market grew by 5.5 per cent this year to DM100bn ($60bn). It also believes the sector will be a significant creator of jobs.

From January 1, Deutsche Telekom, the former monopoly, will offer customers a new tariff structure in which the cost of certain calls is cut by up to 63 per cent. Earlier this week the company said it planned to make further reductions in prices of long-distance calls later.

Other big fixed-network operators – such as Viag Interkom, Mannesmann Arcor and o.tel.o – have also recently announced big reductions. The most daring bargain of all, however, comes from Mobilcom, which plans to offer some long-distance calls free of charge next year.

Over Christmas, Mobilcom, a start-up company which does not have its own network infra-structure but has been quick to exploit the possibilities of market liberalisation by renting lines owned by others, scored a publicity coup with an offer of free calls made during a four-hour period in the evening.

But the company's innovative approach may land it in court. The Centre for the Prevention of Unfair Competition, a private sector body supported by various business groups, said it was investigating allegations that Mobilcom had violated competition rules.

The Centre questioned the "give-away of a service" and said the ending of the free call period over Christmas had not been made clear enough to users.

The Centre issued a letter of warning to Mobilcom and said it was considering taking the company to court over its plans to offer free calls next year.

INTERNATIONAL

Greenspan calm amid the storm

In the second of two reports, **Gerard Baker** recounts how two Fed rate cuts revived markets frozen with fear and helped avert what might have been economic crisis

Shortly after 2 o'clock on Wednesday September 23, Alan Greenspan cleared his throat, adjusted his microphone and began a hurriedly scheduled appearance before the Senate budget committee. Two days earlier, in a conference call with the other members of the Federal Reserve's policy-making open market committee, the Fed chairman had agreed the line he would take at the specially arranged session.

He needed to spell out in the clearest possible detail that the central bank would cut interest rates when the FOMC met the following week. In spite of earlier hints about a rate cut, financial markets were still uncertain and Mr Greenspan wanted to leave no doubt.

But unknown to the members of the Senate committee, the Fed chairman had another reason to send a reassuring message to the markets.

Two hundred miles away, in the fortress-like lower Manhattan headquarters of the New York Fed, William McDonough, the president of the most powerful of the regional branches of the central bank, was sitting round a table with some of the biggest lions in the Wall Street jungle. They were haggling over the terms of a deal to rescue Long Term Capital Management, the troubled hedge fund and brainchild of John Meriwether, financial high-flier. The rouble crisis a month earlier, and the global turmoil it precipitated, had brought LTCM to the brink of collapse, and Fed officials in Washington and New York were alarmed about the implications of failure for US financial markets.

As Mr Greenspan talked in Washington, the deal was sealed in New York: some of the largest companies on the Street would put in $3.6bn to shore up LTCM's capital. The near-collapse of the well connected hedge fund that balmy Wednesday afternoon marked a new and critical phase of the global financial turbulence that seemed to threaten a worldwide recession this autumn.

In response to the crisis Mr Greenspan had already indicated his willingness to steer the Fed on a dramatic change in monetary course. At the Treasury and the White House, officials were co-ordinating an international response that would also strike out on a bold course for growth.

But with the collapse of LTCM, markets were gripped by a new frenzy of fear. The next 2½ weeks marked the most serious phase yet in the gathering crisis.

Six days after the LTCM rescue, and with markets wilting around it, the Fed at last confirmed its much-flagged change in policy. But as the news broke of the quarter-point cut in the federal funds rate to 5.25 per cent at 2.18pm that Tuesday, the reaction was disappointment. Having been prepared by Mr Greenspan for the announced change in policy, markets had been hoping it might prove a bold move – perhaps a half-point. "Too little, too late," was the verdict of market analysts, however, and stock prices resumed their decline.

In fact the size of the rate cut reflected differences in views among US monetary policymakers. Though all 11 voting members of the committee supported the move, some thought it might be wise to go further. But others warned that a bigger rate cut would send the wrong signal – that the Fed was panicking – and might produce an even bigger collapse. Still other members regarded a quarter-point increase as the maximum in the circumstances. "You have to remember, it was essentially a committee decision – and sometimes those kinds of decisions are compromises," says one economist close to Fed thinking.

Whatever was intended, the effect was instant. Stock prices continued to fall. Within days, markets had more reasons for disappointment. The annual meetings of the International Monetary Fund and World Bank in Washington seemed to point up the scale of the global crisis, rather than providing an obvious route out of it. And in spite of their pledge earlier in the month to put growth first, the finance ministers of the Group of Seven industrialised countries failed to produce much of substance. A new US proposal for a special IMF precautionary financing mechanism did not seem to promise an early solution to the turmoil.

And while policymakers in Washington disappointed, conditions in New York were deteriorating fast. In the wake of the LTCM bailout, financial institutions began to look around for the next victim – and shunned almost any sort of risk. Stock offerings were scrapped, lending conditions were tightened and equity prices continued to fall.

The week after the IMF/World Bank meetings, beginning on October 12, threatened to produce a meltdown. On Wednesday October 14, BankAmerica, one of the country's largest, shocked investors with the announcement it had had to make provisions for losses of $1.4bn in the previous quarter, much of it linked directly to the global turmoil.

Persistent rumours of even bigger troubles for at least one other investment bank suggested a broader financial collapse was possible. "A lot of business just ground to a halt that week," says one trader.

The next day, Thursday October 15, marked the turning point. Having disappointed the markets with his earlier rate cut, Alan Greenspan decided to try again. That morning he arranged a conference call with other members of the open market committee. The discussion was lengthy, and went over much of the same ground as the September 29 session. But this time it was much more urgent.

That afternoon the Fed did something it had not done for four years – cut rates between the regularly scheduled meetings. The cut was another 25 basis points, and, critically, the Fed hinted it was ready to do more if necessary.

At 3.15pm the cut was announced. Within minutes, stock prices had rebounded. When the market closed 45 minutes later the Dow Jones Industrial Average had turned around by nearly 400 points.

To many market participants, the timing of the Fed's bold move suggested it knew something very disturbing. Another financial institution was in grave trouble. If the markets did not stabilise before the weekend, it would be forced to collapse with potentially devastating consequences for the world economy.

"It was very cleverly timed," says one seasoned Fed watcher. "By moving just before the close that day they got the maximum response in financial markets. The fact that the next day was a Friday also helped – it kept the momentum going into the weekend."

But Federal Reserve officials dismiss such talk: Monetary policy is rarely dictated by the needs of single institutions, however serious the systemic risk, they say.

More important than fears about any single bank or hedge fund, they add, were the extraordinary dislocations in markets as a whole in that fateful week. Even the most liquid and safest of markets simply froze, as paralysed investors refused to buy or sell.

A reliable indicator of investors' attitude to risk is the gap or "spread" between yields on certain types of risk-carrying bonds, and those on riskless Treasury bonds. The week the Fed cut interest rates, the spread between the yield on high-yielding (junk) bonds over 10-year Treasuries soared over 600 basis points, up from a low of 280 basis points in April.

And market watchers say even this October figure was artificially low, because virtually no trades were in fact taking place. If there had been any activity, the spread would surely have been much higher – perhaps up to 800 or 900 points - the kind of risk premium that investors demand only in a serious recession.

Even more strikingly, investors were even shying away from relatively risk-free securities if they were not traded in the most liquid of markets.

In short, as Mr Greenspan later said, the convulsions that followed the Russian collapse in August and the LTCM crisis were seizing up markets for all kinds of heavily traded financial instruments.

In the weeks that followed that second rate cut, conditions gradually began to stabilise. Opinions differ about how important the rate cut was. Many monetary officials think markets might have gradually unfrozen of their own accord, but believe the dramatic urgency of the October cut signalled the Fed was ready to wade in.

Other factors undoubtedly contributed to the subsequent return to something close to normality: Japanese banking reform and fiscal stimulus, an IMF-led loan for Brazil, signs of a halt to the collapse in some of the worst-hit Asian countries. But the timing of the Fed's actions suggest they were probably pivotal.

Not that anyone claims the US saved the world. The mood of many officials in Washington is one of temporary relief at having dodged a bullet in 1998. No one is confident there will not be more in 1999.

The first of these two reports appeared in yesterday's Financial Times.

Hopes for Mexican budget agreement

By Andrew Downie in Mexico City

Officials from the Mexican Treasury and main political parties yesterday struggled to negotiate a new financial package that would prevent constitutional confusion.

With little more than 24 hours to go before the expiry of the 1999 budget deadline, government officials said they expected to reach an accord late yesterday. One said the two sides had tentatively agreed to raise funds by cancelling a proposed reduction in alcohol tax and by phasing in a cut in company tax. The government agreed to a small cut in spending, said the official.

"Anything can happen but we think that basically it is done," said the chief Treasury spokesman, Marco Provencio.

The accord would end the most protracted budget stalemate in recent history. Mexico has lost billions of dollars in revenue because of the fall in world oil prices – a third of its income derives from petroleum – and the government of President Ernesto Zedillo has struggled to come up with novel ways to make up the shortfall.

So far, the government has sanctioned a rise in public transport fares, raised petrol prices by 15 per cent and liberated long-standing price controls on some basic foodstuffs, including support that for decades made the humble tortilla affordable to even the poorest Mexicans.

However, other proposals – including a highly contentious plan to tax telephone service – were dismissed by the opposition and the three main parties have been unable to agree on an alternative.

The main opposition National Action party rejected new taxes and the government, which is adamant the fiscal deficit must remain at 1.25 per cent of gross domestic product, refused to entertain the idea of spending cuts.

HOSTAGE CRISIS TOURISTS KIDNAPPED THREE WEEKS AGO ARE RELEASED BY TRIBESMEN

Four Germans freed in Yemen

By George Parker in London and Robin Allen in Dubai

Yemeni tribesmen yesterday freed four German hostages kidnapped more than three weeks ago, after warnings from the authorities that they would use force to resolve the issue.

The release of the German tourists came in the same week that four hostages, three British and one Australian, were killed after *Yemeni security forces* stormed the camp of the Islamic fundamentalists who had kidnapped them the previous day.

The use of force by the Yemeni authorities has concerned Britain and Australia, which had urged them to use peaceful means to *resolve hostage incidents.*

San'a claimed that the new aggressive policy had been successful in securing the release of the German hostages.

"The Germans were freed a short while ago and on their way to San'a," a Yemeni official said yester*day.*

He said they were safe and in good health.

Hundreds of tourists have been kidnapped in Yemen in recent years, but none had been killed until the shoot-out in Mudiyah, in Yemen's south-central Abyan province, on Tuesday.

Baroness Symons, UK Foreign Office minister, said London had earlier pressed the authorities in San'a to ensure the safety of the 12 Britons, two Australians and two Americans taken hostage.

She was still trying to establish the veracity of claims by the Yemeni authorities that they only opened fire after the kidnappers started to kill the hostages.

"If our advice was ignored for inadequate reasons, we would be very concerned indeed," she said.

Yemeni officials said the kidnappers belonged to Islamic Jihad, a group of about 200 members based in a camp in south Yemen.

There were growing suggestions yesterday that the hostages died because the Yemeni forces bungled the rescue attempt.

A Yemeni journalist, who spoke to some of the freed hostages, said they were taken by surprise when grenades were tossed at them and then their captors fired back.

"Some of us were injured by the grenades and others in the crossfire," the journalist quoted one of the freed westerners as saying.

Meanwhile, the Conservative opposition party in the UK yesterday questioned whether the Foreign Office had provided the best up-to-date travel advice to visitors to Yemen.

Baroness Symons said *there was no evidence that* the latest round of kidnappings was related to the US and UK bombing of Iraq earlier this month.

Religious fears may have helped spur deaths in Yemen

Robin Allen explains how the nature of *kidnapping may have started to* undergo change in recent months

Over *the last four years,* kidnapping of western visitors in Yemen has become commonplace among armed tribesmen, who have used tourists as bargaining chips to force the government to fulfil pledges to supply basic hygiene, roads and social services to poor and remote areas. Oil company employees have been taken, and pipelines blown up, for the same reasons.

But apart from one Italian who was shot and wounded earlier this year and three nuns killed in July, scores of hostages have been released unharmed. Indeed most, according to Abdulaziz Al-Saqqaf, editor-in-chief of the Yemen Times, come out of their captivity rather "sympathetic to the people who 'host' them".

These tribesmen, are reportedly demanding up to IR90m ($608,000), luxury cars and houses, high military ranks and assured public sector positions for some *senior tribal leaders* in return for releasing their captives.

Doubts remain about the chronology of events leading to the killing of four western hostages this week in Mudiyah, in Yemen's south-central Abyan province, but some suggest it was the decision by government troops to launch an attack that may have accounted for the deaths. The decision to go in may partly be explained by the government's belief that the kidnappers *belonged to* an Islamic militant group, making political rather than *financial* demands in return *for the hostages' release.*

The militants, described by a senior information ministry official as "Afghani people, former [Mujahideen] guerrillas", are said to have demanded the release from jail of one of their leaders, Sheikh Mohamed Atwi.

Yemeni observers say that several Islamic activists with experience in the 1980s war in Afghanistan against the *former Soviet Union* are living in Yemen.

They also acknowledge that attacks on foreigners have recently gone beyond straightforward tribal kidnapping for economic gain.

However, they are quick to point out that the mere presence of Islamist activists does not implicate them in atrocities.

Nor does the government sound convinced of its own case. Yesterday one senior information ministry official, asked whether he thought Osama bin Ladin, the Saudi-born millionaire alleged by *the US to have master*minded the bombings last August of US embassies in Dar es Salaam and Nairobi, had a hand in the kidnappings, could only reply: "Why not?"

Most observers agree that Yemen is fertile ground for activists seeking to arouse anti-western sentiment and exploit popular disaffection.

Yemen is the "soft underbelly" of the Arabian peninsula, according to one analyst. After two decades of power, *President Ali Abdullah* Saleh has failed to dispel the widespread notion that power *means wealth for a* privileged few and poverty for the rest of Yemen's 16m people.

Poverty is spreading as the *economic cake gets smaller.*

The 1998 budget deficit, at 13 per cent of gross domestic product, is eight times that projected. Interest rates were increased last October, for the third time this year, to 15 per cent. Since last June the official riyal/dollar exchange rate has fallen 14 per cent to IR148 to the dollar and oil revenues have fallen by 40 per cent.

The daily cost of living for ordinary people has soared, following cuts in state subsidies, imposed at the behest of the International Monetary Fund and the World *Bank as part of a structural* economic reform programme.

Price rises have exposed the government to accusa*tions by the powerful opposi*tion Islah Islamic party – led by the parliamentary speaker, Sheikh Abdullah Al-Ahmar – that it has betrayed Islamic principles and sold out to the west. Last summer price riots erupted in the capital San'a and many other cities.

Since last June, preachers at mosques around Yemen have denounced international financial institutions, describing the World Bank as the "Death Bank."

In the southern part of the country around Mukalla, Lahej and Aden, violent pro*tests continue to erupt* against what is seen as northern "colonialism" following the defeat of southern attempts at seces*sion in the 1994 civil war.*

The government's response has been to use the military to stamp out disaffection, and to persevere with subsidy cuts and price rises. Last month, President Saleh announced the privatisation of airports and seaports.

Analysts have warned that without first reforming itself, any central government's attempts to enforce doctrinaire measures on Yemen's independent-minded people are doomed to failure and will only lead to further disaffection and violence.

Armed tribal Yemenis, west of San'a, hold their Kalashnikovs above their heads Reuters

Manila plans deficit to boost economy

President Joseph Estrada of the Philippines yesterday signed into law a budget for next year that includes a fiscal deficit of at least 18bn pesos ($460m) to stimulate the country's flagging economy, *Reuters reports from Manila.*

The 585bn peso ($15bn) national budget for 1999 is 8.23 per cent larger than this year's total of 540.6bn pesos.

"We were fortunate to have withstood well the Asian economic crisis, compared with some of our *friends in the [region],*" Mr Estrada said after the signing ceremonies. "With this expenditure programme, we will be able to give our economy the push it needs to get out of the danger zone and set it firmly on the path of steady growth."

The International Monetary Fund allowed the Philippines to expand its budget deficit this year from the original target of 40bn pesos, equivalent to 1.2 per cent of gross national product, to boost the economy.

For 1999, the budget deficit target of 18bn pesos, equivalent to 0.6 per cent of GNP, could be raised to as much as 67bn pesos, or 2.2 per cent of GNP, officials said.

The higher deficit *limit* will provide the government with the flexibility either to cover a revenue *shortfall* or to boost growth through increased spending.

"A fiscal stimulus is necessary to enable our economy to register a real growth of 3 to 3.5 per cent at the very least by the time we begin the next millennium," Mr Estrada said. "We will strictly follow a disciplined and well focused spending programme."

The government forecasts that gross domestic product in 1999 will grow 3.5 per cent compared with an estimated 1.0 per cent this year. In the third quarter, GDP con*tracted 0.1 per cent year-on*-year after growth of 4.9 per cent in the same period in 1997.

Over two-thirds of the 1999 budget will be set aside for key social services and agricultural development.

Some 51.6bn pesos, or about 8.8 per cent of the full budget, was allocated to modernise the country's inefficient and ill-equipped armed forces.

The Philippine navy has a fleet of mostly 40-year-old ships, while the country's air force is equipped with Vietnam war-vintage fighter aircraft.

Tax reform brings VAT to Vietnam

By Jonathan Birchall in Hanoi

Vietnamese consumers are bracing themselves for the introduction of value-added tax (VAT) tomorrow in an important step towards modernising the country's taxation system.

This new tax is supposed to leave prices unchanged, but local newspapers have already reported a surge in retail sales, as shoppers expect widespread price increases to follow.

The complexities of *implementing* a VAT invoice system represent a hefty challenge *for the* Finance Ministry's tax department, and for local and foreign businesses. The government has been preparing for the new tax for more than a year, but has warned that initial difficulties, including an slide in revenues at first, may be "unavoidable".

*VAT will replace a busi*ness turnover tax, which yields about 17 per cent of the government's revenues and which is applied through 11 separate tax rates. In contrast, there will be four levels of VAT, with a standard rate of 10 per cent, preferential rates of zero and 5 per cent, and a special high-band rate of 20 per cent.

The structure is additionally complicated by the existence of some 25 separate exemption conditions. "There are a lot of grey areas," said one Hanoi-based accountant.

The new tax also includes a uniquely Vietnamese attempt to extend the tax to a wide range of small household businesses that do not maintain detailed financial records.

Instead of using VAT invoices, these businesses will instead be assessed under a so-called "direct" method, with their tax liabilities calculated by subtracting total purchases from total sales.

Tax *analysts say* it remains unclear how, if at all, businesses paying under these terms will be incorporated into the overall VAT invoice chain.

The introduction of VAT should provide a boost for Vietnamese exporters, by enabling them to claim back tax charged *on inputs,* something not possible under the existing turnover tax.

Vietnam first committed itself in 1994 to introduce VAT, largely at the urging of the International Monetary Fund, which supported early efforts to draft legislation. However, the Fund has subsequently expressed reservations over the complexity of the system eventually devised.

In addition to VAT January 1 will bring in a 32 per cent corporate income tax

In addition to VAT, Janu*ary 1 will* see a 32 per cent corporate income tax replacing an older, more complex profits tax. Most companies with foreign investment, however, will continue to benefit from exemptions granted under Vietnam's foreign investment law.

The government is also introducing a new, broader special consumption tax on luxury items and services, which will include a 25 per cent tax on karaoke bars, massage parlours and discotheques, and a 20 per cent tax on golf.

Budget threat puts pressure on Netanyahu

By Judy Dempsey in Jerusalem

Israel's ultra-Orthodox religious parties said yesterday they would block further readings of next year's budget unless the Knesset (parliament) banned membership of religious councils by *non-Orthodox Jews.*

This coincided with a decision by an Israeli district court to accept the legality of conversions carried out by non-Orthodox rabbis, a move which will be challenged by the ultra-Orthodox religious establishment. The ruling is seen as the first step by the liberal Reform and Conservative strands of Judaism in breaking the monopoly on *coversions held by Israel's* ultra-Orthodox rabbis.

In the threat to block the budget, aimed at extracting concessions from Benjamin Netanyahu's government, United Torah Judaism, the ultra-Orthodox party in his coalition, said it intended to by-pass a recent decision by *the High Court of Justice* which ruled that religious councils must integrate non-Orthodox strands of Judaism.

The religious councils, monopolised by the ultra-Orthodox, are supposed to provide religious services to the community, including *marriages* and burials.

They are also supposed to reflect the political and social composition *of municipal councils.*

However, despite many legal attempts and successful court cases won by Jews who represent the more liberal strands of Judaism, the ultra-Orthodox have repeatedly blocked their participation on the councils.

Holding next year's budget to hostage by *the* religious parties is the last thing Mr Netanyahu wants, particularly since a new centre party, to be headed probably by Amnon Lipkin-Shahak, *former chief of staff,* and Dan Meridor, former finance minister, intends to run a campaign based on an Israel free of religious coercion.

If Mr Netanyahu bows to pressure from the religious parties, it will make it more difficult for him to attract the secular centre ground. *Yet he wants the budget in* place before the election campaign. Failing that, the current budget will *remain* in effect for the next three months, with inflationary adjustments.

Mr Netanyahu still hopes to reduce the budget deficit to 2 per cent of gross domestic product *in 1999,* even though this year's target of 2.4 per cent may not be *met, given the slow* rate of growth and an unemployment rate of 9 per cent.

The central bureau of statistics yesterday said the economy grew by 1.9 per cent this year, slightly higher than earlier estimates but lower than the previous year, when it grew 2.4 per cent.

It said the economy might be improving as recent *indi*cators were beginning to shift direction.

Defiant Iraq scents a chance to make political gains

Roula Khalaf in Baghdad explains why Saddam Hussein *has taken the decision to go on the offensive*

On the main street of Kerrada in central Baghdad, the 24 metre-wide crater caused by a US cruise missile attack 10 days ago has been filled and the road repaved.

A few miles away, at the Medical City hospital, the windows shattered by an explosion at the old defence ministry are also being replaced. Throughout Baghdad, residents speak of the relief felt at the end of the *four-day* US and British air raids.

But as Baghdad picks up the pieces after Operation Desert Fox, the Iraqi government is stepping up its defiance. It insists that the war waged by the US and Britain is continuing and it has kept the country in a state of high alert.

The US-led air raids had barely ended when Iraq began challenging the northern and southern exclusion zones from which its air force and troops have been barred since 1991 to protect Kurds in the north of the country and Shias in the south.

This, in principle, has always been the Iraqi position. But this week Baghdad acted on it.

Yesterday, Iraq opened fire on US and British aircraft patrolling the southern no-fly zone, provoking a second retaliation this week. An earlier incident on *Monday* had led the US to fire at an air-defence battery, killing four Iraqi soldiers.

Continuing to challenge the no-fly zones may look like a death wish, as it is *bound to result in fresh mili*tary action by the west and the US could decide that it needs to try to take out the ground-to-air capabilities that survived Desert Fox. But Iraq seems to believe the timing is ripe for a new confrontation and is willing to take this risk.

First, the government wants to show primarily to its own population, but also to the outside world, that four days of bombing have not dented its appetite for defiance or its military ability to attack US aircraft. Drawing the US into further, but limited, strikes also portrays the US as continuing its aggression against Iraq.

"What are we supposed to do? Just sit there and do as the US tells us?" asked one official.

Second, Baghdad appears to believe that escalating tensions can help transform the perceived political advantages made during the four days of raids into diplomatic gains. "There is a new situation now, after more than 400 cruise missiles were fired at us," says an official. "It presents an opportunity for Iraq."

Four days of bombing have taken a heavy toll on military infrastructure, but did not lead to an uprising. Nor do they appear to have shaken the regime's grip on power. They did, however, highlight strong divisions in the United Nations Security Council, with Russia, France and China calling in the aftermath for a lifting of the oil embargo imposed by the UN since 1990. They also stirred emotions in the Arab world, where demonstrations against the US strikes spread from Cairo to Damascus and Rabat.

However, there were signs this week that the *momentum* could dissipate. Baghdad was clearly disappointed with some leading Arab governments' resistance to the holding of an Arab League foreign ministerial meeting *to discuss Iraq.* The meeting originally scheduled for yesterday has been moved to the end of next month.

It has attempted to highlight to the Arab masses that the no-fly zones are not stipulated by the UN and are only being enforced by the US and Britain – and thus are part of US aggression. It is also trying to persuade Arab governments that they should help if they want to avert another bombing campaign which might create domestic problems by enraging Arab populations.

The air raids had barely ended when Iraq began challenging the exclusion zones

Baghdad also wants to *put* pressure on members of the security council, which have been trying to salvage a united policy and find a way to send Unscom, the UN arms inspectors' special commission, back to Baghdad. Iraq has said the inspectors – whose damning report on Iraqi compliance triggered the air strikes – would not be allowed to return unless the eight-year UN oil embargo was lifted and Unscom restricted its operations to monitoring facilities that have already been inspected.

But diplomats in Baghdad say Russia – Iraq's strongest supporter – appears not to be pushing hard enough on behalf of the Iraqis at the security council.

Iraqi newspapers have also criticised recent French proposals as moving against the *interests of Baghdad.*

The Iraqi regime may be hoping that raising the issue of the no-fly zones may give its supporters in the council a bargaining chip in whatever diplomatic game is played in coming weeks.

"Iraq wants something concrete to come out of *Operation Desert Fox,*" says a senior diplomat. "And so it is raising the pressure to strengthen the hand of Russia and China when they bargain with the US and UK on how to deal with Iraq and perhaps on a new formula for Unscom."

BURNING AND LOOTING BJP PRIME MINISTER SEEKS TO DISTANCE HIS GOVERNMENT FROM THE VIOLENCE

Hindu mobs attack churches in India

By Amy Louise Kazmin *in New Delhi*

Atal Behari Vajpayee, India's prime minister, yesterday tried to distance his Hindu nationalist-led government from a destructive spree against Christians by Hindu mobs, promising to ensure the safety of religious minorities in India.

"India is a secular state," Mr Vajpayee said. "All citizens irrespective of religion and caste are to be provided with full safeguards, full security."

Mobs were reported yesterday to have burned two Catholic churches in a village about 80km from Surat, an important textile town in India's western state of Gujarat. It was the latest in a spate of attacks against Christians that began on Christmas day. Since then, mobs have attacked at least 12 churches, schools and prayer *halls, leaving at least* six in smouldering ruins.

The Christian community, about 2.3 per cent of India's estimated 960m people, has blamed Hindu extremist organisations opposed to what Christians say are charitable activities in neglected rural areas. Hindu extremists accuse missionaries of forcible conversions, which church officials strongly deny.

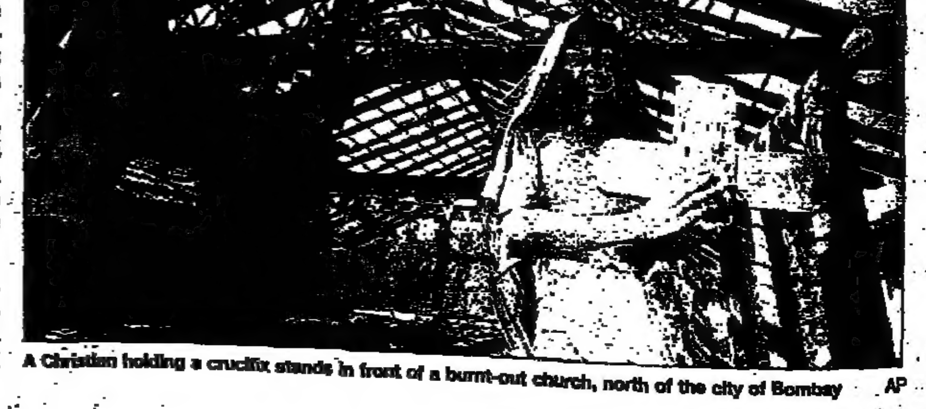
Christian groups say violence against them has increased *since the coalition* led by the Bharatiya Janata party (BJP) took office in New Delhi last spring. The BJP's supporters include hardline Hindu organisations such as the Vishwa Hindu Parishad (VHP), or World Hindu Council.

Along with a spate of Bible burnings and attacks on schools, Christians were horrified by the rape of four nuns working in a remote district of central Madhya Pradesh state.

About *15,000 Catholic* schools, 90 per cent in rural areas, are flashpoints in the battle. The VHP says promises of education and jobs are used to win the loyalties of low-caste Hindus.

Christians accuse entrenched political groups of trying to thwart education that could uplift rural people but also make them more assertive.

"We are *educating* them and they will be asking for their rights," said Father *George Pereira* of the Catholic Bishops' Council of India.



A Christian holding a crucifix stands in front of a burnt-out church, north of the city of Bombay AP

هكذا من الاصل

reform
gs VAT
ietnam

In addition to VAT January 1 will bring in a 32 per cent corporate income tax

lget threat
s pressure
Netanyahu

Prescott in fight to save Brown aide

By George Parker, Political Correspondent

John Prescott, deputy prime minister, is backing attempts by Gordon Brown, the chancellor of the exchequer, to save the job of his controversial press secretary, Charlie Whelan.

Downing Street wants Mr Brown to sack his aide, widely suspected of leaking details of the secret home loan that led to the downfall of Peter Mandelson, trade secretary.

But in a sign of a strengthening Prescott-Brown axis in the cabinet, the deputy prime minister believes there are no grounds for sacking Mr Whelan. One Prescott ally said: "No one has proved anything against him, so I don't see how he can be sacked."

Mr Whelan's future has turned into a power struggle between Tony Blair, prime minister, who is furious over the forced resignation of his closest cabinet colleague, and the chancellor.

Mr Brown's position will be strengthened by the support of Mr Prescott, who sees Mr Mandelson's departure as a chance for the government to reconnect itself to its traditional roots. Mr Prescott praised Mr Brown's use of public expenditure to "uphold the economy in the traditional Keynesian way", and spoke of the need for continued interventionism in government. His officials stressed he was not implying a change in economic policy, although many leftwing MPs were delighted by the old-style Labour language.

Margaret Beckett, leader of the House of Commons, joined the fray, saying some public spending programmes could be brought forward, if necessary, to bolster demand in the economy.

Mr Prescott's aides said his comments had been cleared with Mr Brown, and were intended to show that ministers were co-operating and ensuring the business of government continued. However, *they were interpreted* as an attempt by both men to present themselves as upholders of Labour's traditional values.

Mr Prescott is out to reassert his authority in the government. He was furious that Mr Blair kept him out of the loop last month over his plans to extend relations with the Liberal Democrats – a project he despises.

Now it is clear he is developing a powerful alliance with Mr Brown that will act as a new centre of gravity in the cabinet. Although both believe in modernisation of the Labour party, they also retain a belief in an element of redistribution of wealth and of the need for an active government role in the economy. The Prescott-Brown axis is an unlikely combination, given the frosty relations between them before the general election.

Mr Prescott was furious that Mr Brown seemed determined to seize control of all aspects of economic management, and fought a fierce rearguard action. But since the election Mr Brown has tried to repair the damage. Mr Prescott's department of environment, transport and the regions has been given a wide-ranging remit *of* regional development and other economic levers.

Rhodri Morgan, who is campaigning to become leader of the Welsh Labour party, claimed the two men were hoping to increase their influence in the wake of Mr Mandelson's resignation. "Mr Blair will now have to listen to a wider number of sources of advice, rather than just taking advice from one source."

Mr Mandelson's departure removes from the cabinet one of the leading advocates *of co-operation* between Labour and the Liberal Democrats; Mr Prescott disapproves of the initiative and could step up his opposition.

Blair battles to get the balance right on Europe

New Commission will soon be chosen but PM is unlikely to be swayed by notion that jobs should go to socialists. **Robert Peston** reports

Tony Blair's crusade to be in the van of the European Union enters its most important phase early next year, with negotiations over the appointment of a new European Commission.

And in the inevitable unseemly horsetrading, he has only two main aims: to secure maximum reward for British candidates while moving the EU towards a UK agenda of economic deregulation and foreign policy co-ordination.

His colleagues said he would not be led astray by a romantic notion *that spoils* should go to socialists.

He is said by them to be attracted, for example, to the idea of appointing Chris Patten, a Tory and the last Hong Kong governor, to the important new job of European foreign policy "high representative".

The prime minister also wants to ensure that the successful candidate for the top job, Commission president, is "sympathetic to our economic reform agenda", said a government member. *This* is crucial to Mr Blair's hopes of taking the UK into the euro early in the next century, because he would find it impossible if the EU were set on an overt course of setting common rates for general taxes, raising social costs for companies or increasing labour market rigidities.

He has been advised that when *decisions* are *taken* in June – or earlier if the stand-off between the Commission and European parliament over the 1996 budget escalates into crisis – the presidency will go to a southern European. "It's their turn," said a minister.

So Mr Blair's ideal candi*date would be Antonio* Guterres, the Portuguese prime minister, who was Blairite before Mr Blair. "They get on extremely well," said a minister. "He could be a fantastic Commission president."

The problem for Mr Blair is that so far Mr Guterres has indicated he would *rather* not stand, *for* a mixture of personal and domestic political reasons.

Downing Street is unclear whether this is because he wishes to lead his party in the next Portuguese general election, due in the autumn, or whether *he is being coy* because he recognises that his chances of obtaining the Commission presidency would be damaged if he showed his hand too soon.

"There is a long history of early favourites for the job *getting knocked out," said a* government member.

In the absence of Mr Guterres, Mr Blair would probably support Romano Prodi, the former Italian prime minister.

Another possible southern European candidate, Javier Solana, the Spanish Nato secretary general, would also be seen as acceptable by the UK. However, British *officials fear* Mr Solana's well-known US sympathies could alienate other countries.

On the other hand, there are two potential nominees Mr Blair hopes will not be in the frame, said a minister. He mistrusts the allegedly old-left instincts of Felipe *Gonzalez, the former* Spanish premier, and is said to be "appalled" by the possibility – albeit remote – that Oskar Lafontaine, the German finance minister, may be proposed.

Mr Lafontaine has embarrassed Mr Blair in the two months since a red-green coalition took power in Germany by promoting a tax harmonisation agenda inimical to the UK.

"Tony is going to have to talk to Schröder [the German chancellor] about whether he really wants to shunt Lafontaine off to Brussels," said a government member. "It will not be an easy conversation".

Choosing the British candidates for the lesser jobs is no less problematic. Mr Blair has signalled he feels no obligation to accept William *Hague's nomination, Alas*tair Goodlad, for a junior commission post to be made vacant by the retirement next year of former Conservative minister, Sir Leon Brittan.

"The idea that there is a convention on this is poppycock," said an official. He said John Major, the previous prime minister, blocked the appointment of Neil Kinnock, *Labour's nominee, for* two years in the early 1990s and Jim Callaghan appointed Christopher Tugendhat 20 years ago against the wishes of Margaret Thatcher, then Tory leader.

Mr Blair has been advised that Mr Patten, a former Tory party chairman, would be interested in the post of EU foreign and security policy co-ordinator and spokesman, and will try to give coherence to the EU in this area traditionally characterised by disunity.

The appointment of Mr Patten, an unabashed pro-European in a Conservative party moving in a Euroscep*tic* direction, would be a boon to Mr Blair in highlighting Tory divisions on Europe. However, a government member said Mr Patten and Mr Blair had yet to have talks about the post.

When they do, the prime minister will try not to deliver a snub to Mr Kinnock, a former labour leader and transport commissioner. Mr Kinnock is understood to be lobbying to become a Commission vice-president for external affairs.

But ultimately Mr Blair will not back anyone for sentimental reasons. In the trenchant words of a minister: "He will *do what's good for* him and for the UK. Nothing else will count."

Tony Blair's favourite for top *Commission job*: Portugal's prime minister Antonio Guterres Reuters

City firms seek advice on Jefri ruling

By Jim Kelly in London

The Big Five professional services firms are to seek *top-level legal advice about* the repercussions of a Lords judgment on the use of "Chinese walls" to protect clients' interests.

It is understood the firms – PricewaterhouseCoopers, Ernst & Young, KPMG, Deloitte & Touche and Arthur Andersen – are discussing a plan to approach leading counsel to set out the judgment's implications.

"We all understand the importance of the issues – especially as the firms grow and integrate globally and consider working alongside lawyers and other profes*sionals," said a risk manage*ment partner at one of the Big Five. While the opinion of a top court lawyer on the judgment would not have the force of law, the firms would be able to rely on it in part if they faced legal action from clients who felt their interests were not being properly safeguarded.

In the case in question, Prince Jefri of Brunei successfully challenged KPMG's *decision to join an inquiry* into the sultanate's finances. KPMG once worked personally for Prince Jefri who was a target of the inquiry. The case hinged on the effectiveness of Chinese walls.

In a 16-page judgment Lord Millett pointed to guidelines laid down by the Financial Services Authority and the Law Commission on how Chinese walls should be constructed. He said such walls *could not be ad hoc* but established "organisational arrangements".

The Big Five will also want to know to what extent Lord Millett's judgment relates only to special cases like that of Prince Jefri where there is a direct conflict of interest in a legal action. "Does it apply more widely – we do need to know," said the partner.

A fundamental rethink on *Chinese walls could have* repercussions for the firms due to conflicts of interest arising from consolidation in the sector.

NI peace brokers receive new year honours

By George Parker in London

John Major, the former prime minister, was among a host of people to receive honours *today* for their part in bringing about the Northern Ireland peace agreement.

Mr Major was *made* a Companion of Honour, and there were awards for the international triumvirate who helped to broker the Good Friday agreement.

George Mitchell, the former United States senator, Gen John de *Chastelain*, from Canada, and Harri Holkeri, the former Finnish premier, were in charge of the talks process that led to the creation of the new all-party Stormont assembly.

The Foreign Office announced it was making Mr Mitchell a Grand Knight of the Order of the British Empire which is an honorary title.

General de Chastelain, one of his co-chairman, was made a Companion of Honour and Mr Holkeri, who helped preside over the talks, received an honorary knighthood.

"The honours list underlines the importance the prime minister attaches to making progress in Northern Ireland in the coming year," his spokesman said.

The business community also received its share of the new year's honours. Sir Alex Trotman of Ford was made a life peer, while Victor Blank, deputy chairman of Great Universal Stores, was knighted.

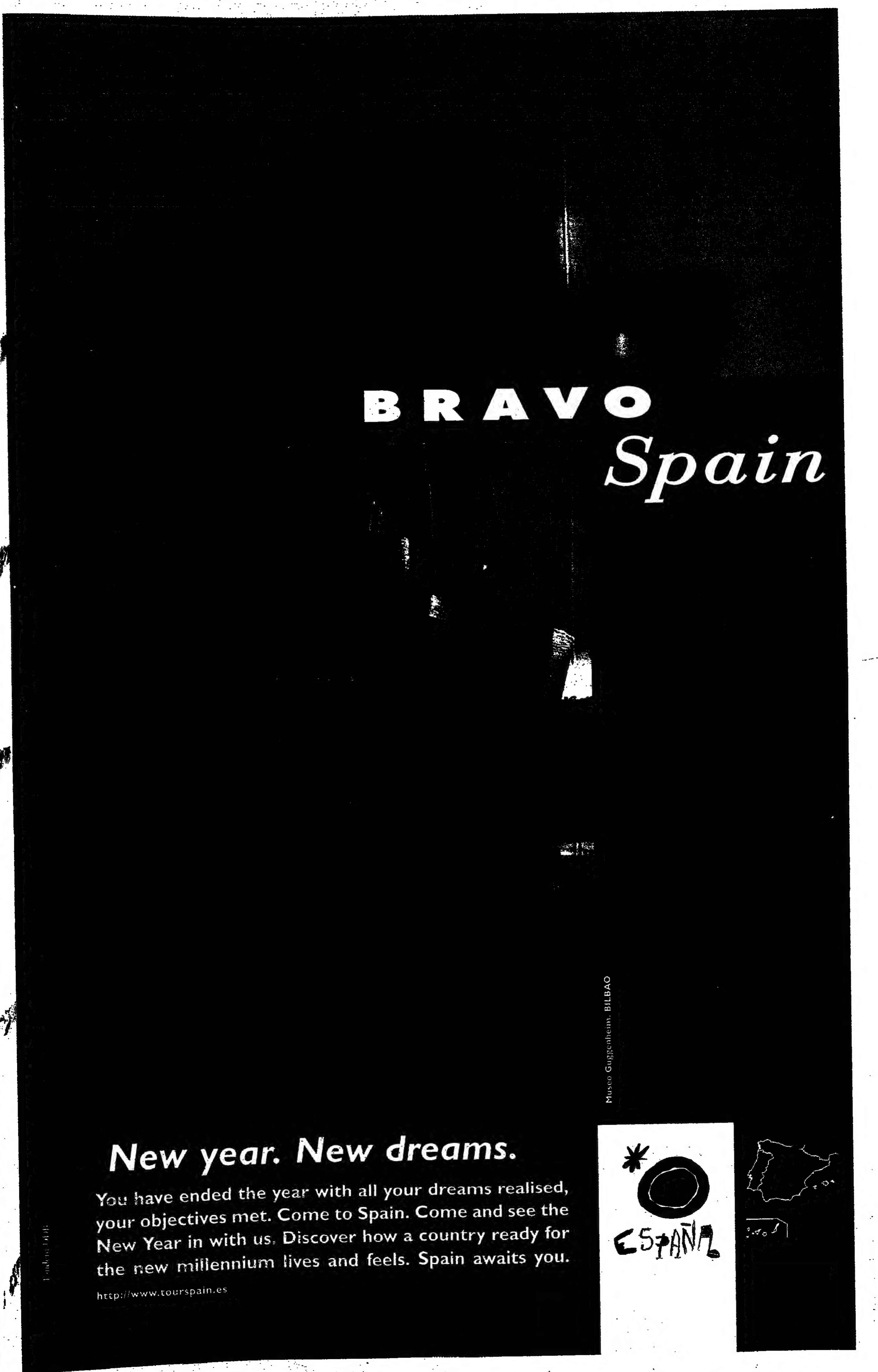
Others to receive knighthoods included John Guinness, of BNFL, Ian Gibson of Nissan, George Mathewson, of the Royal Bank of Scotland, and John Kemp-Welch, chairman of the London Stock Exchange.

In the arts, Nigel Hawthorne received a knight*hood, a suitable title for an* actor who made his name playing the smooth-talking Sir Humphrey in the TV comedy *Yes, Minister*.

هيكل امن الاجيال

NI peace brokers receive new year honours

By Robert Parker in London




UOMO
VALENTINO
174 SLOANE STREET, LONDON
PHOTO: STEVEN KLEIN

CINEMA

Brought up short by an alarming trip

Nigel Andrews survives an overdose of Scottish self-laceration

Are portmanteau movies a good idea? Books of short stories make sense since the tales can be sampled at will. You can crackle open the pages, at intervals of days or months, whenever a new hunger for the author occurs.

But watching a multi-story structure like *The Acid House* on the large screen you think, "Why am I being dragged behind the runaway brain of Irvine *Trainspotting* Welsh for three unrelated tales of sex, drugs and profanity?" To argumentative readers saying "This is the video age, you can 'sample' it just like a book on the small screen" I reply, "Not if you hire the video overnight. And you surely wouldn't want to buy it?"

Scottish self-laceration, even so, is becoming a fascinating cultural phenomenon. Welsh is right up there effing and blinding behind James Kelman and company, as this product exemplifies. In one tale a man is turned into a fly by God, thereby legitimising scenes of vomiting and being swatted to death. In story two a meek husband is humiliated by a cuckolding intruder. And the title tale, the best and longest, is a Scottish take on *Look Who's Talking* by way of *The Exorcist*.

Hampstead-accented trendies Martin Clunes and Jemma Redgrave – God knows what they are doing in Scotland, but with this author God knows a lot that we don't – are shocked by their baby's free-swearing precocity. They little realise that he has swapped personalities with hospitalised acid-junkie Ewen Bremner. *Bremner* was born to play Welsh characters (as in Irvine, not Britain's *other fretful dominion*). His face is a febrile jelly shaken by the ineffable; his long-limbed bony body is that of Nosferatu reborn; his acting is the best that British cinema can currently produce.

THE ACID HOUSE
Paul McGuigan

STAR TREK INSURRECTION
Jonathan Frakes

SITCOM
François Ozon

FASSBINDER AND TRIER
National Film Theatre

Paul McGuigan, who directed all three tales, films Bremner in an alternation of reposeful still shots and woozily manic close-ups. It is hilarious and so are the scenes with Bremner's baby alter ego. This lifelike animatronic tot looks like *Child's Play*'s "Chucky" after a bad night on the town. As any parents would, Redgrave and Clunes try to interpret his obscene ravings as signs of a gifted infant prodigy.

This story is funny, alarming, and believable even in its venturesome absurdity. Before that, though, we have an hour of catch-as-catch-can narrative busking, with non-optional whimsy. I tend to curl into a ball whenever "God" appears in a modern-dress movie (here played by Maurice Roeves). It is either a desperate authorial device to extend the limits of the possible or it announces "Coconut shy time for divinity-resenting Celts or Catholics".

★

The *Star Trek* saga has stopped numbering its sequels, which is fine by me since I have stopped counting them. Only during outbreaks of insomnia, when my mind does cartwheels at four in the morning, do I solicit drowsiness by litanising Captain Kirk operas. "*Star Trek 1*, *Enterprise* chases Klingons. *Star Trek 2*, Enterprise chases Klingons. *Star Trek 3*, Klingons chase Enterprise... Zzzz."

It works better than sheep and better still now that Captain Picard (Patrick Stewart) has taken over, jettisoning William Shatner's campy lovability. I nodded off twice during *Star Trek Insurrection*, awoken on each occasion by an exploding spaceship. The plot concerns a happy, anti-technological rural commune on a distant planet – Amish in space – who are threatened with eviction by wrinkle-skinned baddies led by F. Murray Abraham. The wickedness is revealed early when our friendly android Data (Brent Spiner) malfunctions during a Federation-sponsored observation programme and the Federation's first principle of non-intervention in the indigenous life of other planets... Zzzz.

What did help to keep me awake was wondering why Data, a US-accented android, is pronounced "Dayta" rather than "Datta". Did ex-Royal Shakespeare actor Stewart, playing his boss, insist on this unAmerican locution? Or in a Federation-dominated future do we all observe Oxford English Dictionary pronunciation? Best to sleep on these matters.

Born to play Irvine Welsh characters: Ewen Bremner as the crazed junkie in 'The Acid House', with Arlene Cockburn as Kirsty

It is impossible to sleep during *Sitcom*, even after a heavy Christmas. François Ozon's film is a crash course in guerrilla eroticism. You never know what will come next, or who, in this tale of a French family whose ids crack open like boiled eggs when father brings home a laboratory rat.

The rodent's presence turns *them* into living experiments. Sonny suddenly announces that he is gay and holds orgies in his room. Crippled daughter starts to explore S-and-M. Mother, who has never explored anything darker than M and S, makes a seduction play for sonny. And father has a singular encounter with a microwave.

The film earns nought out of 10 for originality. Its *épater le bourgeoisie* plot is just Bunuel's *Discreet Charm* with a dash of Pasolini's *Theorem* (the rat playing Terence Stamp). But its sex content, rising to a surprise hardcore moment midway, should alone be enough to fill five London arthouses over the New Year.

For real bourgeois-baiting no one surpassed Rainer Werner Fassbinder. The National Film Theatre's full-scale retrospective begins this week and extends across three months. More presently on these pages about the workaholic *wunderkind* who made the most colourfully subversive, deceptively primitivist social dramas of the late century.

By a stroke of inspiration the NFT has scheduled a Lars Von Trier season for February. Since Trier is the closest that posterity has produced to a Fassbinder soul twin, we can re-experience the creation of a key postmodern film movement that we should probably call Compassionate Absurdism.

Watch RWF's movies side by side with LVT's; watch *Fear Eats The Soul* next to *Breaking The Waves* or *The Merchant Of Four Seasons* next to *The Element Of Crime*; and you see that these two directors went further than any other Euro-modern towards reinventing melodrama. In their hands it gathered – in Trier's is still gathering – wit, intelligence, self-reflexivity and a caustic, cosmic reverberance.

Cockerel with not much to crow about

OPERA

DAVID MURRAY

The Golden Cockerel
Sadler's Wells, London EC1

At the new Sadler's Wells Theatre, which is still not quite finished, the Royal Opera – of which one might say the same – is performing Rimsky-Korsakov's "dramatised fable" *The Golden Cockerel* (after Pushkin), the mock-sinister farce which was his last opera. In principle, an excellent choice for a Christmas show that is to have 14 performances: funny, colourful, cod-dramatic.

An excellently chosen cast, too – at least the first one, whom we heard on opening night; they will alternate with a second team. Rozhdestvensky was to have conducted the first, and may do later when he recovers from flu. Vladimir Jurowski, who was down to conduct later performances anyway, had to stand in for him after a single rehearsal. That was enough to excuse some nagging lack of co-ordination between singers and orchestra.

Jurowski's treatment of the score was warmly idiomatic, if weak on theatrical urgency. The leading singers were in splendid voice: Paata Burchuladze's richly bemused King Dodon, Elena Kelessidi's bewitching Queen of Shemakha – no longer our familiar "Shemakhan"; the change has come along with the switch of title from French *Coq d'or* to the English version, though what is actually sung here is Russian.

The fly in the ointment, however, is Tim Hopkins' production. This was a joint commission with the Teatro dell'Opera di Roma, where it was seen some three years ago. Did anybody from Covent Garden go to *look* at it? In Anthony Baker's chilly box-set it looks grey, stolid, unconvincing and unfunny, and it never draws upon its performers' lively skills. Rather, it merely counts on their uncertain intuitions to fill the gaping holes left by the production.

The first-night audience booed it roundly, and quite right too. This is a "concept" production, with just two concepts. One is that sleepy Dodon's kingdom should be confined to his large bed in Act 1, expanded to a hospital ward with *twelve* beds for Act 2, and faded into a grey void for Act 3. So much for lively satire and picturesque stage-colour, on which Rimsky certainly counted.

The other, dimly based on the Astrologer's teasing lines at the end – he and the Queen have been the only "real people" in the fiction, he says – is to make him and the Queen haunt the action throughout, to no significant purpose. The effect is stagey, self-conscious and soon wearisome, though Jean-Paul Fouchécourt's Astrologer is eerily piercing and other-worldly whenever he gets to sing.

The actors are cruelly under-directed from start to finish. Burchuladze shows a ripe humorous potential, but is given just nothing to *do* but mug; nor Kelessidi's Queen either, left to fill out her extended seduction-aria in Act 2 with repetitive nautch-girl bumps and grinds; nor the doomed, dim-witted Princes (stylishly sung by Ilya Levinsky and Garry Magee), who may never before have been so under-exploited for comedy. The mechanical routines assigned to the chorus, Dodon's infinitely credulous subjects, aren't funny either.

Bewitching: Elena Kelessidi as the Queen of Shemakha — Alastair Muir

Hopkins seems to have no knack at all for working with actors. What does he think people come to live opera for? I fear he may have spoiled the Royal Opera's Christmas, which really needed a success.

Shakespearian view of sex and shopping

THEATRE

SARAH HEMMING

The Two Gentlemen of Verona
The Pit, Barbican, London EC2

The Reduced Shakespeare Company, the Californian troupe that specialises in high-speed tours of the canon, once observed that since the Bard wrote 37 plays, he was bound to have the occasional off day. *The Two Gentlemen of Verona* is often seen as a case in point.

This early comedy about two friends, the fickle Proteus and the loyal Valentine, is crafted skilfully but can look formulaic. In many ways it seems to be a dry run for so many better, later comedies on love, friendship and betrayal, and it has a troublesome ending in which the near rape by Proteus of Valentine's girl is followed moments later by forgiveness all round. But it does also have a spirit of its own, an ability to conjure the tumult and confusion of young love. For the director, this poses a challenge: how to stage it to bring out its symmetry, humour and volatile mood, without having it look predictable or trite.

In the 1991 RSC production, David Thacker's inspired approach was to set it in the 1930s and lace the whole thing with Cole Porter love songs, which captured the giddy rapture of foolish young love. Edward Hall, in his intelligent new RSC production, also goes for a 20th century setting, transporting the play to Italy. Here, the self-absorption of the lovers is matched by their evident dedication to shopping – a furrowed brow looks so much better in a well-cut coat and top-of-the-range shoes, after all. This brings the youth and daftness of the lovers into close range and enables Hall to enliven the production with comic touches to keep it buoyant.

It is a breezy, stylish production, peppered with nice comic moments. There is a running gag about the fastidiousness of Silvia's father, and when Proteus is agonising over his desire to drop Julia and chase Silvia, he does so over a bottle of beer from the minibar. Tom Goodman-Hill's Valentine, all floppy red hair and tediously earnest pronouncements on love at the outset, acquires real dignity at the end. Dominic Rowan's capricious Proteus begins by enjoying the drama of his own dilemma, but ably suggests that his conscience is sticking to him as the going gets tougher, making him increasingly desperate.

Poppy Miller's spoilt Silvia is a bit of a minx to begin with, but reveals true steadfastness beneath, while Lesley Vickerage's rather haughty Julia is clearly caught off guard by the intensity of her feelings. John Dougall's wide-boy servant Speed and Mark Hadfield's maudlin Launce are funny.

The bittersweet ending is pulled off by having the now whey-faced lovers embrace with the fervour of people who have just emerged alive from a crash. The production has many shortcomings, however. The emphasis on the playfulness of the piece is at times overdone, and means certain essentials appear to have been overlooked. The relationship between Valentine and Proteus never seems close enough to make sense of the blows dealt it by desire for the opposite sex. The infatuated desire of the lovers for one another is not tangible, and nothing is made of Proteus's interest in the disguised Julia. And, in places, the lovers rambling is just plain tedious.

All in all, though, it is a pleasing evening, but one also felt a certain sympathy for Launce's dog Crab, who sat happily enough for the most part, but clearly felt the urge to be off on occasions.

Sponsored by Big Steak Pubs and Whacky Warehouse

INTERNATIONAL Arts Guide

CHICAGO

EXHIBITION
Art Institute Of Chicago
Tel: 1-312-443 3600
www.artic.edu
Julia Margaret Cameron's Women: 60 vintage prints of Victorian subjects such as Julia Jackson, mother of Virginia Woolf, and Alice Liddell. The exhibition will travel to San Francisco; to Jan 3

COLOGNE

OPERA
Oper der Stadt
Tel: 49-221-221 8240
Die Vögel: first modern staging for Walter Braunfels's opera. Premiered in 1920, it was banned by the Nazis and largely forgotten until a recent recording. This production is conducted by Bruno Weill and staged by David Mouchtar-Samorai; Jan 2

FRANKFURT

EXHIBITION
Schirn Kunsthalle
Tel: 49-69-299 8820
Alberto Giacometti: retrospective of work by the Swiss sculptor and painter. Also featuring prints and drawings, it charts Giacometti's artistic output from his early years in 1920s Paris to his death in 1966; to Jan 3

LONDON

EXHIBITION
Royal Academy of Arts
Tel: 44-171-300 8000
Picasso: Sculptor and Painter in Clay. This first major exhibition of Picasso's ceramics will include around 100 pieces, many of which have never before been exhibited. They will be shown with some paintings and sculptures, demonstrating how Picasso developed his ideas across different media; to Jan 1

THEATRE
Albery
Tel: 44-171-876 1115
Mr Puntila and his man Matti: Kathryn Hunter's production of Brecht's satirical comedy moves from the Almeida Theatre to the West End. Dec 31; Jan 1, 2, 4, 5

National Theatre
Tel: 44-171-928 2252
Betrayal: by Harold Pinter. Trevor Nunn directs Pinter's 1978 play, with a cast including Anthony Calf and Imogen Stubbs; Lyttleton Theatre; Dec 31; Jan 1, 2, 4

MUNICH

CONCERT
Philharmonie Gasteig
Tel: 49-89-5481 8181
Munich Philharmonic Orchestra: conducted by Milan Horvat in Beethoven's Symphony No. 9; Dec 31

NEW YORK

CONCERTS
Avery Fisher Hall, Lincoln Center
Tel: 1-212-875 5030
www.lincolncenter.org
New York Philharmonic: conducted by Kurt Masur in a New Year's Eve Gala, with a programme including works by the three Strausses. With sopranos Deborah Voigt and Noemi Nadelman; Dec 31

EXHIBITION
Metropolitan Museum of Art
Tel: 1-212-879 5500
www.metmuseum.org
Degas Photographs: bringing together 35-40 photographs, most of which were made in the 1890s. Mainly they are figure studies, self-portraits and portraits of the artist's circle; to Jan 3

OPERA
Metropolitan Opera, Lincoln Center
Tel: 1-212-362 6000
www.metopera.org
Die Fledermaus: by J. Strauss. Revival conducted by Patrick Summers. Cast includes Carol Vaness, Jochen Kowalski and Bo Skovhus; Dec 31; Jan 2

OTTAWA

EXHIBITION
National Gallery of Canada
Tel: 1-613-990 1985
Songs on Stone: James McNeill Whistler and the Art of Lithography. Includes around 200 works by the American expatriate, with drawings, etchings and paintings; to Jan 3

PARIS

EXHIBITIONS
Grand Palais
Tel: 33-1-4413 1730
Gustave Moreau: more than 140 works by the Symbolist painter, held in high esteem by his literary contemporaries. Includes studies and drawings as well as oils, many of them depictions of historical and mythical subjects; to Jan 4

Musée d'Orsay
Tel: 33-1-4049 4814
www.Musee-Orsay.fr
● Millet/Van Gogh: display of 65 works brought together to demonstrate the influence of Millet on the work of Van Gogh; to Jan 3
● Stéphane Mallarmé (1842-1898): retrospective exploring the work of the French Symbolist poet, and his influential relationships with his literary and artistic contemporaries; to Jan 3

Musée du Louvre
Tel: 33-1-4020 5151
www.louvre.fr
Portraits from Roman Egypt: touring exhibition of mummy portraits, originated at the British Museum. Painted on wooden panels, linen shrouds and plaster masks, they were created during the first three centuries of Roman rule in Egypt; to Jan 4

PRAGUE

THEATRE
National Theatre of Prague
Tel: 420-2-2108 0131
www.anet.cz/nd
The Servant of Two Masters: by Carlo Goldoni. Directed by Ivan Rajmont; Dec 31

PROVIDENCE

EXHIBITION
The RISD Museum
Gifts of the Nile: Ancient Egyptian Faience. Display of ceramics, known as faience, a mixture worked by the Egyptians and regarded by them as magical. Brings together over 200 works, including statuettes of kings and gods, animals, and inlaid boxes ranging over 5000 years; to Jan 3

SAN FRANCISCO

CONCERT
Davies Symphony Hall
Tel: 1-415-864 6000
www.sfsymphony.org
San Francisco Symphony Orchestra: conducted by Peter Guth in a Viennese gala concert, with soprano Izabela Labuda; Dec 31

VIENNA

CONCERT
Musikverein
Tel: 43-1-5058 6810
Vienna Philharmonic Orchestra: conducted by Lorin Maazel in a New Year's Day concert which marks two historic anniversaries: the 150th of the death of Johann Strauss the elder, and the 100th of the death of Johann Strauss the younger; Jan 1

OPERA
Staatsoper
Tel: 43-1-51444 2960
Ernani: by Verdi. Conducted by Seiji Ozawa in a new staging by Graham Vick; Jan 3

WASHINGTON

EXHIBITIONS
National Gallery of Art
Tel: 1-202-737 4215
www.nga.gov
Van Gogh's Van Goghs: 70 paintings loaned by the Van Gogh Museum in Amsterdam. Includes such icons as The Potato Eaters (1885), Self-Portrait as an Artist (1888), The Harvest (1888) and Wheatfield with Crows (1890); to Jan 3

Phillips Collection
Tel: 1-202-387 2151
Impressionists in Winter: Effets de Neige. Inspired by Sisley's Snow at Louveciennes, this display includes 62 works from 44 collections. Artists represented include Monet, Pisarro, Caillebotte, Gauguin and Renoir; to Jan 3

OPERA
Washington Opera, Kennedy Center
Tel: 1-202-295 2400
www.dc-opera.org
Die Entführung aus dem Serail: by Mozart. L.A. Opera production by Michael Hampe, conducted here by Heinz Fricke; Eisenhower Theater; Dec 31; Jan 3

ZURICH

EXHIBITION
Kunsthaus Zurich
Tel: 41-1-251 6765
Max Beckmann and Paris: more than 100 masterpieces of modern art from public and private collections around the world. Works by Beckmann are shown alongside paintings by Matisse, Picasso, Braque, Léger and Rouault; to Jan 3

■ TV AND RADIO

● **WORLD SERVICE**
BBC World Service radio for Europe can be received in western Europe on medium wave 648 kHZ (463m)

EUROPEAN CABLE AND SATELLITE BUSINESS TV

● **CNN International**
Monday to Friday, GMT:

06.30: *Moneyline with Lou Dobbs*
13.30: *Business Asia*
19.30: *World Business Today*
22.00: *World Business Today Update*

● **Business/Market Reports:**
05:07; 06:07; 07:07; 08:20; 09:20; 10:20; 11:20; 11:32; 12:20; 13:20; 14:20.

At 08:20 Tanya Beckett of FTTV reports live from LIFFE as the London market opens.

SAMUEL BRITTAN
ECONOMIC VIEWPOINT

Anatomy of slumps

Large recessions are not just fluctuations: they inflict 'semi-permanent damage', but they cannot be forecast

At a time of widespread distrust of economic research, the last and posthumous work of Christopher Dow stands as a landmark of what can still be done.*

Dow was assistant secretary general, in charge of economics, at the Organisation for Economic Co-operation and Development and then an executive director of the Bank of England. After he retired from the Bank in 1981 he continued to work intensively as an applied economist, not only looking at numbers but asking fundamental questions about what they meant and how the economy worked. He just managed to finish his last work before he died at the age of 82. If there is such a thing as an economic saint, he was it.

Dow's last work should be a model, even to those who disagree with it, of how such research should be conducted and explained. He is rigorous and makes use of econometrics where applicable. But instead of throwing at us a few equations (even when such equations are valid they usually account for only a limited proportion of the variations analysed), his own work is, in the vogue phrase, completely "transparent". It is also brought to life with lots of comprehensible charts and tables.

Since capitalism has been exposed to boom and bust for centuries, the fundamental question is how much they matter. Dow defines a major recession – of which there have been five in the UK since 1920 – as one in which output does not merely fall behind trend but drops absolutely. Such recessions do matter because they displace the trend itself (see chart). Economies do have a natural tendency to revert to a trend rate of growth but they climb from a lower starting point and the lost output is not recovered except through fortunate accidents or unusually successful policy.

As a result of the last three recessions Dow believes that British output was, by 1993, some 25 per cent below the level suggested by the previous trend. But he does not regard this shortfall as a scandalous policy failure and – unlike some undergraduate Keynesians – he does not think that the shortfall can be made up by an enormous boost to demand.

Cautious as ever, he believes that the possibilities of re-expansion are limited by two factors. First, the "natural rate of unemployment" (a concept he reluctantly accepts) may itself have risen; second, there is the concept of speed limits. If the underlying trend growth rate is, say, just less than 3 per cent per annum, an attempt to grow after the end of a recession by more than a half or 1 per cent above this rate could run into bottlenecks. This could have an inflationary effect even if the "natural rate" has not yet been reached.

The author will surprise some readers by his finding that the UK recessions of 1973-75, 1979-82, and 1989-93, in each of which output fell by a cumulative average of 10 per cent, were just as severe as the inter-war recessions of 1920-21 and 1929-32. An important chart shows that even if the inter-war recessions were no worse in terms of lost output, they had a much more severe effect on unemployment.

He also suggests that there were no severe recessions in the period 1860-1920, although there may have been a couple early in the 19th century. One possible conclusion is that the economy did not do too badly in the Victorian and Edwardian periods when no one tried to steer it. Alternatively, Dow's concept of a "severe recession" leaves out some of the forces that operate in sustained periods of stagnation or high unemployment.

Dow finds that severe recessions have had varying causes. The 1929-32 experience is traced to the decline in exports, itself a consequence of the US-initiated world depression. The 1979-82 recession, at the start of the Thatcher term of office, is ascribed to a mixture of an export setback (itself reflecting a combination of world recession and the overshooting of sterling), the contractionary fiscal policy adopted by the new government and a superimposed "decline in business confidence". The last recession of 1989-93 is, somewhat surprisingly, ascribed to declining business confidence alone.

Dow concludes that such recessions cannot be forecast. His policy inference is that preventive action should be restricted to not provoking them – for example by a big fiscal clampdown at a time of depressed business conditions.

Moreover, he argues it is just as important to avoid excessive booms: they inevitably provoke corrective action which can push the economy over the brink. For unlike many of those who would regard themselves as in his camp, Dow does not think that ever-rising inflation can be tolerated.

Once a major recession has developed, he can only suggest fairly conventional, but cautious, fiscal and monetary stimulation. He refers to the limits imposed by the amount of available capacity or the possible atrophy of labour force skills and so on. These limits are inherently difficult to measure. Surely the way to impose speed limits is to monitor the movement of nominal demand, a concept he too quickly casts aside.

The author asks why growth did not get out of hand and generate runaway inflation in the golden age up to 1973. He suggests as one reason the Bretton Wood system of fixed exchange rates. But if that system acted as a proxy for a monetary rule – until the inflationary financing of the Vietnam war – then the distance between Dow and the moderate monetarists is less than either side would like to think.

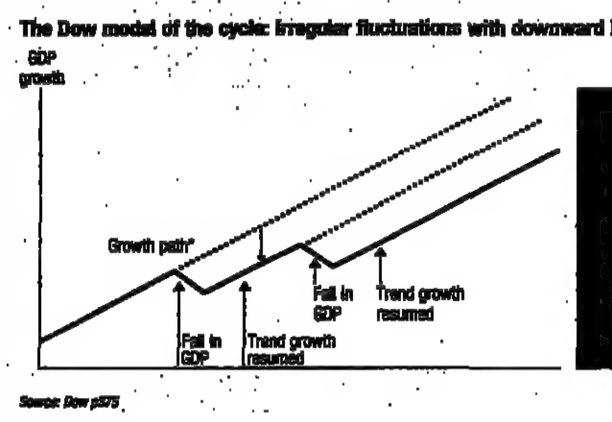
A volume of this scope inevitably provokes further questions. Dow rightly dismisses theories that attempt to explain severe recessions by excessively high real wages. The collapse of the American banking system at the beginning of the 1930s and the oil shock of the early 1970s hit the world economy through their effect on demand. But "high real wages" surely contribute to long-term problems, such as the recent persistence of high unemployment in continental Europe in both boom and slump. Moreover, it is not just wages that matter but all the costs of employing an hour's labour, including the now notorious social overheads and restrictions on working time, dismissal procedures and so on.

Finally, if each big downward shock ratchets world or national output lower, how has the human race managed to achieve such rapid economic growth in the last few centuries? Did Dow really believe that if Sir Robert Walpole (the 18th century politician commonly regarded as the first British Prime Minister) and his successors had run an active monetary and fiscal policy, UK real national income would have been a multiple of its present level? The author guards his flank, however, by describing the loss of output in a severe recession as "*semi-permanent*", thus suggesting that there is more to investigate.

Whatever the caveats, Dow's study is one of the seminal books of the last few decades and needs to be studied by anyone who presumes to pronounce on economic policy.

**Major Recessions, Britain and the World, 1920-1995, Oxford University Press, £55.*

The Dow model of the cycle: irregular fluctuations with downward breaks in the trend



Source: Dow p375

Christopher Dow

* Trend of growth at constant employment

LETTERS TO THE EDITOR

The real cost of supporting speculators in emerging markets

From Mr Harry Shutt.

Sir, Lex's suggestion (December 28) that the IMF should stop lending to support currencies at unsustainable exchange rates in Russia, Brazil etc. indicates a failure to grasp that such support is driven by a desire to give priority help to foreign short-term speculators investing in these emerging markets at the expense of the real economy.

Combined with the absence of exchange controls (also insisted on by the Fund) it ensures that domestic interest rates are kept at astronomic levels in order to defend the overvalued parity.

This in turn ensures that, as long as the exchange rate is kept more or less stable (with the aid of judicious IMF-funded intervention in the market), holders of government Treasury bills at interest rates ranging from 40 per cent to 100 per cent make super-profits while local enterprise is strangled, government debt is pushed to ever more unfundable levels, public servants and pensioners go unpaid and millions more are subjected to destitution and premature death.

If the FT seriously wishes to save emerging markets from total catastrophe it must not only demand an end to such criminally irresponsible support for speculators but call for implementation of emergency packages involving effective exchange controls and provision of affordable finance for viable local enterprises.

If, on the other hand, it continues to turn a blind eye to what is happening it is guilty of giving tacit support to what amounts to an official pyramid scheme financed by western taxpayers.

Harry Shutt,
19 Tennyson Close,
Horsham,
West Sussex RH12 5PN, UK

Unwilling citizen of Euroland

From Mr Peter Warwick.

Sir, Mr Christie's Euro-integrated culture ("Labour mobility a vital reason to defer Emu", Letters, December 19/20) scares me – bullfights in London and fried skylarks for dinner?

The tangle of beliefs, behaviours and passions that comprise Euro-culture is surely not to be preferred to the rich variety that we can sample or not as we wish.

Integration sounds ghastly and not a realistic aim.

Amplified prayer calls, roast horse and bizarre games with tethered birds are for the fans. I would wish to be excused, content with my backward and unenlightened views on the new Europe.

Peter Warwick,
Aldermoor,
Stoney Cross,
Nr Lyndhurst,
Hants, UK

Actuaries' central role in company wellbeing

From Mr P.N. Thornton.

Sir, Your leader (December 22) does not do justice to the role of the Appointed Actuary.

UK legislation requires each life insurance company to appoint an actuary, the Appointed Actuary, who has a number of statutory duties. Principal among these is to protect policyholders' interests and to see that the company satisfies their "reasonable expectations".

The financial stability of the company is essential to those expectations. The Appointed Actuary has to provide a certificate as to the financial wellbeing of the company in the Annual Return.

A concern with solvency is a fundamental means by which the Appointed Actuary protects policyholders' interests. However, beyond this, life companies are expected by the Treasury to fulfil their "policyholders reasonable expectations". While there is no formal definition of this term, actuaries have developed a working understanding of how it should be interpreted, and they play a central role in seeing that companies respect these expectations.

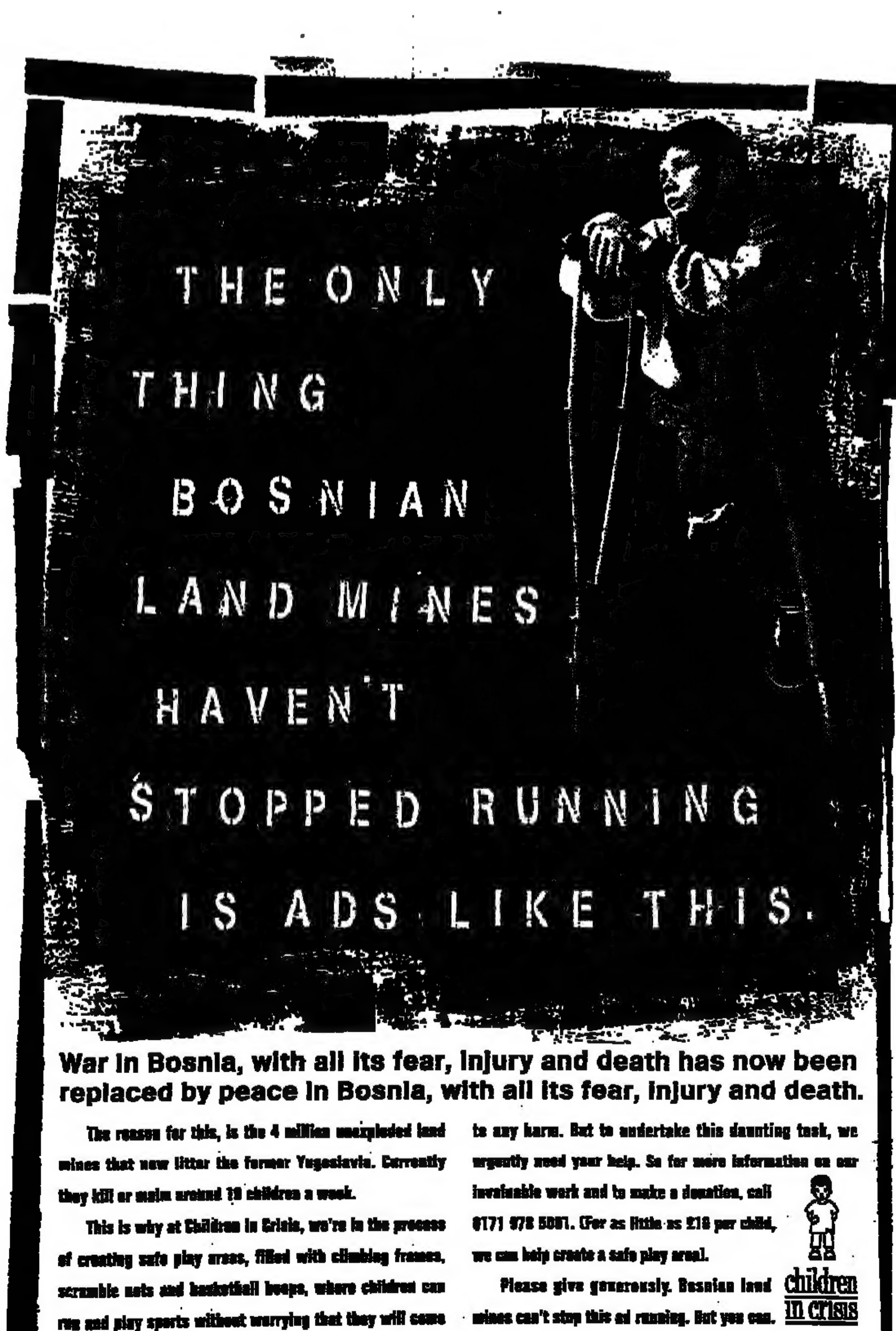
We have welcomed the recommendations of the Treasury Select Committee that the Treasury should investigate whether the role of the Appointed Actuary should be strengthened. As the committee has recognised, the role of the Appointed Actuary is not "to conduct a debate with policyholders", but to ensure that their reasonable expectations are respected in the conduct of life assurance business on a basis of continuing solvency.

It is even more important that the profession is seen to act in the greater public interest.

P.N. Thornton,
president,
Institute of Actuaries,
High Holborn,
London WC1V 7QJ, UK

Number One Southwark Bridge, London SE1 9HL

We are keen to encourage letters from readers worldwide. Letters may be faxed to +44 171-873 5938 (set fax to 'fine'). e-mail: letters.editor@ft.com Published letters are also available on the FT web site, http://www.FT.com Translation may be available for letters written in the main international languages. Fax 0171 873 5938. Letters should be typed and not hand written.



Out with the old

Tadashi Nakamae argues that Japan must abandon attempts to stimulate demand in favour of structural reform to promote a service-based economy

1999 NINETEEN NINETY NINE Japan is still dominated by what I call the "old economy". This evolved after the second world war to foster the growth of large corporations supplying manufactured goods. The "new economy", which is underdeveloped, will centre on small companies supplying services. As the old economy *continues to shrink*, Japan's only hope for sustainable recovery in the coming century is massive supply-side structural reform to get the new economy growing.

The old economy is already shrinking much faster than anyone realises. Japanese managers have rapidly shifted their priority from increasing market share to raising profitability. They know that, in today's global financial market, if their return on capital is poor they will be unable to raise funds. Thus, Japan's financial Big Bang has accelerated the correction of over-supply in the old economy.

This correction began in 1990, when the ratio of capital investment to gross domestic product peaked at 20 per cent – double the norm in Europe and north America. Cuts in capital investment have been the primary cause of Japan's prolonged economic slump in the 1990s. But, in 1998, the annual rate of decline of capital investment has suddenly accelerated to around 20 per cent. Given that capital investment accounted for 15 per cent of Japanese GDP last year, this drop alone will take 3 per cent off this year's GDP growth.

Over-supply in the old economy has gone hand-in-hand with over-employment. Cuts in investment have meant rising unemployment and job insecurity, which has eroded consumer confidence. In 1998, as this process has accelerated, consumption has fallen especially sharply, at an annual rate of around 3 per cent. Consumption accounts for more than 60 per cent of Japanese GDP, so a 3 per cent decline in consumption will take another 2 per cent off GDP growth this year.

In response, the Japanese government has attempted again to revive the old economy by stimulating demand growth. This resort to demand-side palliatives has been counter-productive to the structural reform process. It should be obvious by now that the flagging old economy can never again provide the engine for sustainable growth.

A realistic target for sustainable economic growth in the 21st century is 3 per cent a year. *If Japan is to meet* this target, the old will have to be replaced by the new on an enormous scale. Because the working population is no longer growing, economic growth of 3 per cent will require Japan to improve productivity by 3 per cent a year. Industries in the old economy, where the trend of demand growth has fallen flat, will be able to achieve this target only by cutting employment by 3 per cent a year.

The overwhelming majority of Japan's 65m workers are employed in the old economy, so cutting employment by 3 per cent will create around 2m newly unemployed every year. Japan's only hope is that these unemployed can be absorbed by a rapidly expanding service-based economy. I believe that Japan's future hinges upon whether this new economy will be able to grow fast enough over the next 10 years to provide new jobs for 20m Japanese – roughly one-third of the present working population.

The engine for growth in the new economy will be small service-providing companies, typically with a workforce of around 10 people. Every year, if Japan's new economy is to absorb the 2m unemployed released from the old economy, a net 200,000 such small companies will need to be created.

A partial precedent for growth on this scale is the US supply-side revolution of the 1980s, when every year, on average, 800,000 new companies were spawned and 700,000 companies ceased *business, so that a net* 100,000 new firms were created. Even if new Japanese companies enjoy a lower failure rate than this, the creation of a net 200,000 companies a year will require at least 500,000 Japanese entrepreneurs every year to set up new businesses.

The flagging old economy can never again provide the engine for sustainable growth

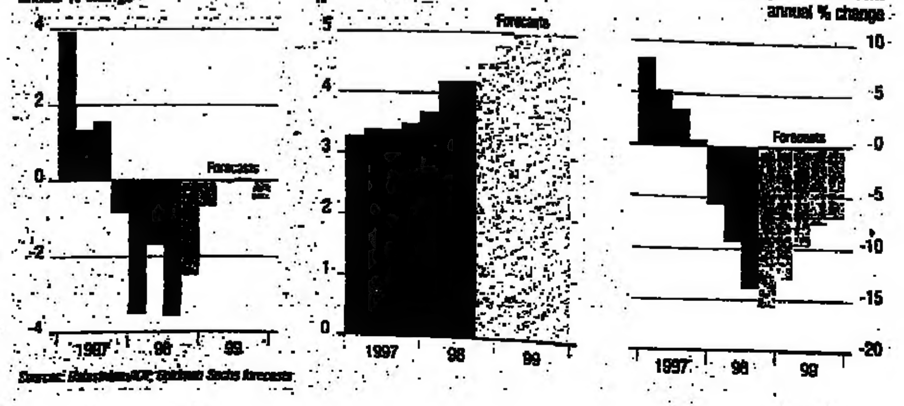
To this end, continued deregulation and financial reform will be indispensable but, I believe, the real key to stimulation of the entrepreneurial spirit will be tax reform. This will not arise, as recent tax cuts have arisen, from a vague hope of reviving growth on the demand-side; the tax reform Japan needs will aim specifically to provide incentives for business creation and growth on the supply-side. I would like to see a flat rate as low as 10 per cent for both income and corporation tax, combined with the elimination of the present tax loopholes for depreciation expenses and interest payments, which primarily benefit big industries in the old economy.

Due to the current lack of political representation for the new economy, the required shift of policy *emphasis from the demand*-side to the supply-side is not imminent. However, as more and more jobs are lost from the old economy, unemployment in Japan will eventually reach crisis proportions. If calculated by the British or American standard, Japanese unemployment would already be double the current official rate of 4.3 per cent. But it will have to rise much higher still – probably to around twice the current level – before sufficient political determination is generated to achieve the necessary watershed in economic thinking.

In conclusion, the issue of supply-side structural reform is the key to understanding Japan's economy. Advocates of demand-side measures to stimulate the economy are completely missing the point. Those who argue for a strong yen similarly seem not to realise that over-valuation of the currency only aggravates the potentially catastrophic deflationary spiral that supply-side structural reform has set in motion.

The author is president of Nakamae International Economic Research

Japan: the need for structural reform



FINANCIAL TIMES
Number One Southwark Bridge, London SE1 9HL
Tel: +44 171-873 3000 Telex: 922186 Fax: +44 171-407 5700
Thursday December 31 1998

Bill Clinton's unlucky star

It has been a year that most Americans, and especially President Bill Clinton, would prefer to forget. But despite the tawdriness of the continuing Monica Lewinsky scandal, it has also been a year worth remembering for the lessons it teaches about the US political system.

After his impeachment by the House of Representatives and with his fate now in the hands of the Senate, the president may find it difficult to look on the bright side. The White House and much of the American public continues to believe that Mr Clinton has been unfairly attacked by right-wingers who were determined to destroy him.

But the fact that he remains in office with record poll ratings and a chance to implement an ambitious policy agenda in 1999 provides a powerful demonstration of the inherent resilience and stability of US political institutions.

The crisis is not yet over. But conciliatory language has recently been coming out of the Senate ahead of next month's trial. This may indicate that the limits of a purely partisan attempt to force the eviction of a popular president have been reached. Voters soundly punished the Republican party at the polls last month and they may do so again in 2000.

Meanwhile, the constitution is working more or less as it was intended to do by the founding fathers two centuries ago. The procedures then established for removing a president were designed explicitly to shield him from partisan attacks. It now seems likely – although not yet certain – that the final result will be close to what the public wanted all along: a permanent stain on Mr Clinton's record without his removal from office.

Ramifications

Many have complained that it has taken the US political machinery far too long to reach this point, with dire ramifications for the government and the rest of the world. But the delay was largely Mr Clinton's fault; and in practice Washington has functioned about as well as could be expected in the meantime. It is true that Congress passed little legislation of note, but that was caused at least as much by political infighting in the Republican party as by a paralysed presidency. At a time of general economic prosperity, there was little public demand for big changes – with the possible exception of the proposed tobacco settlement and campaign finance reform.

Distract attention

More critically, when prosperity was briefly threatened by the global economic crisis in the summer, US authorities acted swiftly and successfully to contain the threat. In fact the more frequently heard criticism this year has been of an over-active president taking risks to distract attention from his troubles. But despite concerns about the motivation for the attacks on Afghanistan and Sudanese "terrorist" targets and the latest round of air strikes on Iraq, Mr Clinton has been as closely engaged in international affairs as ever. From Northern Ireland to Kosovo to the Middle East, Ms Lewinsky did not seem to get in the way of US strategy.

The most obvious lesson of this year of scandal is the need to dismantle or modify the unconstitutional apparatus that gave the Lewinsky affair such extraordinary momentum: the independent counsel law. Born out of a post-Watergate desire to clean up government, the legislation has proved more of a hindrance than a help.

Even if they have at times uncovered evidence suggestive of real crimes, the investigations by Kenneth Starr and other special prosecutors have clearly demonstrated the danger of giving unelected officials free reign and an unlimited budget to scrutinise the behaviour of senior government officials.

When the act comes up for formal review by Congress next year, it should be overhauled. While mechanisms are clearly needed for independent investigations of possible wrongdoing in the executive branch, their scope and authority should be carefully circumscribed. Whatever history may say about Mr Clinton and his failings, that surely would be the most desirable legacy of an unpalatable year.

Fin de siècle starts here

Even for the least superstitious, there is something thought-provoking about the last year of a century. But the power of big round numbers is not to be denied. It prompts the question: what were our great-grandparents expecting in 1899, the last year of the last century, and what can we learn from them?

They did at least glimpse two big things that were coming. The first was war. By the end of the 1890s, there was already plenty of fighting around: between the British and the Boers, the Americans and the Spanish, the Chinese and the Japanese. But there was also unease about the threat of wider conflict in Europe. This was addressed ineffectually at an international conference in The Hague in 1899.

The second was the decline of the 19th century's superpower, Britain. By the late 1890s Britain's industrial output had been overtaken by that of the US and Germany and a Royal Commission had reported on the country's shortcomings in enterprise and technical education. Nor was the unease purely economic: the demise of the British Empire had been foretold in Kipling's poem *Recessional*, published with much fanfare in the London Times in 1896.

A century later, these anxieties might make one feel complacent. True, there is plenty of local fighting around the world but few seriously expect a third world war. Meanwhile the new superpower, America, ends the century more dominant than ever. Not all the world is pleased about that; but it is at least a source of stability. It is when superpowers decline that big conflicts arise.

Twin disasters

Our forebears were less prepared, though, for two of the chief disasters of the 20th century. Anti-Semitism was sufficiently rife in the late 1890s, with pogroms in Russia and the Dreyfus affair in France: but no sane observer could have predicted the Nazis' Final Solution. And although plenty of people called themselves socialists, few foresaw that the secular religion of Marxism would erupt in such stunning and catastrophic fashion, only to burn itself out before the century's end.

The big themes

In predicting the big themes of the 21st century, there is no reason to expect that we shall be any more perceptive than our predecessors; but, on one count at least, it may be worth a try.

In the developed world many people feel an unfamiliar loss of self-determination. Financial markets and corporations seem, to many, beyond democratic control. Governments can be held to account, but they no longer seem to run the show. In Europe, big economic decisions are in the hands of shadowy bureaucrats. Across the world scientists, aided and abetted by big business, are thought to be creating unnatural foods and animals and even to be working on people.

Such propositions can be powerful even when untrue. Intellectuals might point out, correctly, that it is in the nature of markets – and of science – to move faster than democracies can. This does not necessarily mean they are out of control, merely that government takes time to catch up.

But, as George Orwell observed, intellectuals are always being wrong-footed by the propensity of people to act on passion rather than logic. A century ago, free trade seemed inexorable, as did the formation of enormous corporations and the avoidance of wasteful competition. That did not stop 20th century protectionism, nor the populist upsurge that broke up the great monopolies of 19th century America.

Similarly, free market capitalism today stands largely unchallenged – at least in the intellectual sense. But a lot of people are afraid of it or repelled by it. Never mind that the logical alternatives have been tried and found wanting. If Capitalism Triumphant ignores those emotions, it could find the 21st century unexpectedly hard going.

IT WAS THE YEAR WHEN . . . THE YELTSIN ERA ENDED

The fallen colossus

John Thornhill considers Russia's future after the traumatic rouble devaluation and debt default

1998 NINETEEN NINETY EIGHT A few weeks ago a mysterious – and potentially explosive – site flashed up on the internet. On 300 lurid pages, the site relayed the transcripts of confidential conversations between Kremlin officials and personal details of prominent politicians.

The site was disabled within hours yet, in a sense, its appearance was symbolic of the past inheritance, present condition and future promise of Boris Yeltsin's Russia.

Only the FSB, successor organisation to the infamous KGB, could have gathered such information. But some other group is thought to have posted the site for unknown political purposes, illustrating how *kompromat* (compromising materials) and intimidation have become the sleazy currency of power.

As for the future, the material was available to an estimated 1m internet users in Russia – mostly young and predominantly liberal Russians who have entered the global communications village, developing horizons and expectations starkly different from preceding generations.

Caught in this vortex of change is the physically and politically enfeebled figure of Boris Yeltsin. Since seizing power in the wake of 1991's failed hardline Communist coup, Mr Yeltsin has irreversibly changed Russia – for better and worse.

The elation that accompanied that revolutionary year has long since given way to concern about the country's future. As Alexander Solzhenitsyn, the author, lamented in his latest tirade, *Russia in Collapse*: "Russia is something different but not what we had ourselves imagined."

Although Mr Yeltsin may physically serve out the remaining 18 months of his term of office, his regime expired on August 17 when Russia was forced to devalue the rouble and default on its domestic debt. Soon after, Mr Yeltsin jettisoned Sergei Kiriyenko as his prime minister along with the team of "young reformers" who had tried to unleash Russia's liberal market revolution. In effect, Mr Yeltsin handed over power to his new prime minister, Yevgeny Primakov, who immediately re-instated Soviet-era apparatchiks to prominent posts.

Cheered on by the Communist members of parliament, Victor Gerashchenko, the former head of the Soviet state bank who long denied any link between money creation and inflation, was re-appointed as chairman of Russia's central bank. Yuri Maslyukov, the former head of Gosplan, the Soviet state planning agency, was named first deputy prime minister in charge of the economy. Such men were sharply critical of many aspects of Mr Yeltsin's market reforms and instinctively hankered after Soviet-style methods for managing the economy and the imposition of currency and price controls. Russia appeared to have lurched decisively forward to the past.

Yet it is clear that the government has neither the desire nor the ability to recreate the Soviet Union. There are perhaps two distinct scenarios for how Russia may develop next year.

The first, and relatively benign interpretation, suggests that Russia may finally begin to forge the political consensus needed to undertake the real economic reforms, which have been promised but not delivered over the past seven years. Trusted by parliament and popular in the country at large, Mr Primakov may be just the man to implement a tough and responsible budget, rebuild the state and create the conditions for both domestic and foreign investment.

Mr Primakov may not be driven by any innate desire to pursue some of the necessary market policies but Russia's acute financial crisis has stripped him of the luxury of choice.

Mikhail Zadornov, the finance minister who is one of the few economic liberals left in the government, argues that the government will resist the temptation to revert to Soviet-style methods for managing the economy if they do not make any sense. "Primakov and Gerashchenko and Maslyukov are pragmatic people and when they are faced with concrete problems they come up with pragmatic solutions and do not rely on ideological schemes," he says.

Already, the first fruits of the new realism are beginning to blossom. The government has drawn up the toughest budget plans since the collapse of communism, started to close down some of Russia's most politically influential but financially bankrupt banks and pressed ahead with legislation to introduce internationally recognisable production sharing agreements to encourage foreign investment in the oil and gas industry.

Last week, Ruhrgas, the German gas group, paid $660m for a 2.5 per cent stake in Gazprom, Russia's giant gas monopoly. The transaction brought more cash into the Russian treasury than was raised through a string of insider privatisations in 1995.

Moreover, after the humiliating collapse of its assistance programme this year, the International Monetary Fund may well be able to strike a deal with Russia in 1999. For the moment, the IMF has withheld further financial support from the government until it comes up with a coherent longer-term strategy for developing the economy. But the fund is committed to supporting Russian reform in principle and will want to sign an agreement – if simply to "roll over" the $5bn of principal and interest repayments that Russia owes the IMF next year.

The Russian population will still have to endure an appallingly painful winter following the the country's worst harvest in decades and the collapse in the purchasing power of the rouble. But Yuri Shchekochikhin, a liberal MP, argues that the Russian people have demonstrated extraordinary resilience in the past and will adapt and survive again. "There will be no revolution," he says.

Although he does not discount the possibility of further chaos in the short term, Sir Rodric Braithwaite, the former British ambassador to Moscow, also argues that Russia is unlikely to crash entirely off the rails. All political parties accept the need to work within the constitution (no matter how much they dislike it). The press has conducted a free and at times ferocious debate about the options confronting the country while the population has remained remarkably restrained.

"Slow, bumpy progress towards a Russian version of liberal democracy and market economics remains a plausible, even a probable, scenario," he writes in a forthcoming pamphlet.*

But there is a far more frightening view of how Russia could develop next year as the full consequences of the country's economic collapse become agonisingly clear. No matter how pragmatic Mr Primakov's government may prove to be, it simply will not have the political or financial strength to arrest the forces of national disintegration.

To be sure, many of the economic numbers look horrifying. In its World Economic Outlook, the IMF forecast that Russian output would contract by 5.7 per cent this year and a further 8.3 per cent in 1999. It also cast grave doubts on whether the government would be able to raise enough tax to fulfil its budget plans given the "culture of non-payment in the economy".

Chase Securities, the US bank, is also forecasting an alarming reversal of capital flows next year, the government having scared away most foreign investors by defaulting on its domestic debt. Whereas $45.6bn of foreign portfolio investment poured into Russia in 1997, the bank estimates there will be a net outflow of $3bn in 1999 – even assuming the imposition of capital controls.

Domestic capital flight, which the bank estimates amounted to $60bn between 1996-98, will also remain high. Even though Russia is now running a trade surplus of $2bn a month, the central bank's hard currency reserves are still shrinking. Chase predicts an additional $17.1bn of domestic capital flight in 1999 as Russians continue to flee from the rouble.

In such circumstances, it will be extraordinarily difficult for the government – and the corporate sector – to attract much private money next year. That increases the likelihood that it will have to revert to the printing press or run up more arrears, fuelling inflation and further impoverishing the population. Mr Primakov's government may simply be washed away by popular rage leading to a more authoritarian administration or a dissolution of central power as regional governors try to grab more power.

Already, the political mood in the country is turning uglier. In recent months, there has been a rise of anti-Semitic rhetoric and a growing climate of intolerance. Symbolically, the Communist Party is pressing for the statue of Felix Dzerzhinsky, the founder of the Soviet secret police, to be returned to its pedestal outside the former KGB headquarters on Lubyanka square. The monument was torn down by angry protestors in 1991 when Mr Yeltsin stormed to power.

Last month's murder of Galina Starovoitova, one of Russia's leading democratic politicians, has also heightened the climate of fear in the country. The approach of parliamentary elections in December next year and presidential elections in the summer of 2000 will only increase the political tensions.

For the moment, it seems, Russia is caught in a period of *bezvremenye* (timelessness), temporarily trapped between the end of the Yeltsin regime and the beginning of a new, as yet undefined, era. But there are no longer any illusions that Russia's progress will be anything other than slow and painful. Even if Russia avoids the worst, it will take decades for the country to gain its place among the prosperous and peaceful countries of the world.

Oksana Dmitrieva, a school teacher and early supporter of Mr Yeltsin's promised revolution, says she cherishes the personal freedoms that have been gained in this decade. But this year's financial crisis has driven home with brutal clarity the degree of Russia's backwardness. "I grew up in a superpower, I now live in the Third World," she says.

* *Russia and the EU. Forthcoming. Centre for European Reform. http://www.cer.org.uk*

OBSERVER

Home run in space city

Down in Texas it seems that leaving the planning process to market forces isn't working too well.

Houston is the only big US city without zoning restrictions, relying on homeowners' associations to ensure that neighbourhoods don't go to pot. Texans don't like overmighty bureaucrats poking their noses into every corner of people's lives – but some associations seem to enjoy doing just that.

A committee of Texas legislators has found neighbourhood bans on, among other things, political signs, children, spouses below a certain age and pets above a certain weight. Some people have been told not to use their own back doors – or to kiss anyone goodnight outside their front ones.

According to the Houston *Chronicle*, State Senator Ken Armbrister, the committee chairman, said most associations were just fine, but others were "just a racket". Associations can compel homeowners to join, collect fees and take away homes through foreclosure, making them "de facto political subdivisions", the committee concluded, calling for regulation.

Woe betide anyone tangling with the local association – at law, it is responsible only for its own costs if it loses: a resident on the losing side pays for the whole thing. The committee said one homeowner lost $80,000 in legal fees after putting a flower pot in the wrong place.

One manager at the Nasa space centre wrote a critical article in a local newsletter and his association promptly sued him over a yard light. Sounds like Armbrister and his colleagues should put their pets on a diet.

Lonesome pines

Talk about blaming the government for everything. Panama's president Ernesto "Toro" Pérez Balladares has been catching it from all sides in the past month, with riots over everything from water privatisation to changing the date of Mothers' Day.

Now Christmas tree sellers say all the doom and gloom has diluted the seasonal spirit and ruined their trade – December has been marked by a glut of unsold conifers, with hundreds standing forlornly in supermarket car parks. Nothing to do with oversupply, of course.

But the sales window might not be over yet; the trees, imported from Canada, don't exactly thrive in the tropical heat and the pine needles are dropping almost as quickly as the prices.

So now the tree sellers are encouraging Panamanians to stump up for a replacement tree before Twelfth Night. It will, says the merchants of spruce, be cheaper than cranking up the air conditioning to make the first tree of the festive season last the distance.

Sporting chance

In the three months since Germany's federal election on September 27, the former ministers of the defeated Christian Democrat-led government have chosen very different careers.

Ex-chancellor Helmut Kohl remains a forbidding presence in Bonn; with his successor Gerhard Schröder's blessing he still uses the chancellery bungalow as residence. He often attends debates in the Bundestag, the lower house of parliament – although he doesn't say much.

But others look set to cut their ties with federal government – at least for now. Volker Rühe, the former defence minister, is widely expected to run as the CDU's top candidate in elections in Schleswig-Holstein due in Spring 2000.

It is not Rühe's home state: he's from neighbouring Hamburg. But the CDU is hopeful of taking Schleswig-Holstein from the Social Democrats and victory for Rühe could provide a springboard for a run at the federal chancellery in 2002.

By contrast, Klaus Kinkel, the 62-year-old former foreign minister, has opted to join the Bundestag sports committee. Kinkel also is a keen jogger, tennis player (Schröder has challenged him to a match) and a football fan. He also wants to promote disabled sports.

In any case, he says, if he had joined the foreign or defence committees, he would have kept running into the people who used to work for him.

Rhyming couplet

India and Russia have had a pretty good relationship for decades, even in the Soviet era, but last week's visit of Russian premier Yevgeny Primakov to New Delhi exposed unsuspected depths to the friendship.

At an official banquet, Primakov recited some Russian poetry, which turned out to be a translation of works by his Indian counterpart Atal Behari Vajpayee.

Vajpayee's penchant for penning Hindu verse is well known, but he's hardly a best-selling author. You'd be hard pressed to find his works in New Delhi bookshops, apart from those that dutifully carry government documents, so the fact that the Russians have translated his poems and published them is remarkable.

Observer has so far been unable to uncover sales figures for the Russian edition so it's anyone's guess whether Vajpayee has more readers in Murmansk or Madras.

The Financial Times

100 years ago

U.S. Merchants, Wake Up
There is not much doubt that our trade rivals of the future are the merchants of the United States. To natural grit, shrewdness and enterprise bred of citizens in a new country they have, however, yet to add a profound business training for pushing their country's commercial interests abroad. Hitherto their trade has not had to fight its way among nations in different language in anything like the proportion of our own country. It is not surprising, therefore, if we find the commercial educational system of the States extremely backward – worse even than our own.

50 years ago

Atmospheric Pollution
The occurrence of 18 deaths in one day last month in the steel-making town of Donora, Pennsylvania, has reopened the discussion of industrial hazards of this kind. A recent issue of The Lancet discusses the problem of acute poisoning due to sulphur dioxide and hydrogen fluoride. Fortunately acute cases of this kind are rare. The risk of chronic hydrogen fluoride poisoning, however, is greater and should be guarded against.

FINANCIAL TIMES
THURSDAY DECEMBER 31 1998

THE LEX COLUMN

Locking on to Lockheed

The UK's General Electric Company is making the most of its role as the defence industry's eligible bachelor. Alongside potential European partners and Northrop Grumman of the US, GEC is now flirting with Lockheed Martin, the world's largest defence contractor.

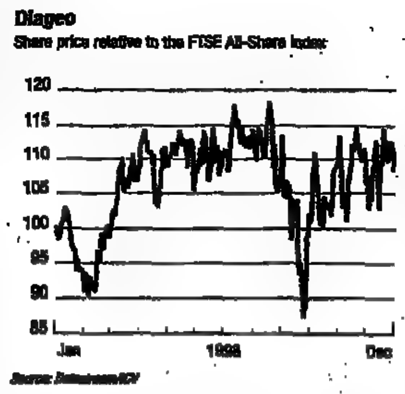
Such an audacious deal has become more feasible for two reasons. First, while GEC's shares have revived strongly under Lord Simpson, chief executive, Northrop and Lockheed have been laid low by the blocking of their own merger and Lockheed's recent profits warning. GEC's £14½bn ($24bn) market value now substantially exceeds Lockheed's $16bn, while Northrop at $5bn looks a mere bite. Second, the Pentagon is coming to see a transatlantic defence deal as the price for preventing US companies from being shut out of "Fortress Europe". And recent US/UK co-operation over Iraq can only have helped the standing of UK companies.

Even so, the idea of a foreign company gaining control of America's premier defence group – which GEC would in a straight no-premium merger – is sure to cause political outrage. One way to avoid that is for GEC simply to sell its Marconi defence arm – worth about £6bn ($10bn) – to Lockheed in return for a juicy premium. Alternately, the two entire companies could attempt a merger of equals. Given shared management control and the strength of such a world-class group, politicians might be persuaded. Meanwhile, investors could be won round by the prospect of big cost savings. And the companies' market values could be brought closer by paying GEC holders a fat special dividend. The extra debt taken on could then be paid down by selling GEC's non-core industrial businesses.

Diageo/LVMH

Good news for LVMH; bad news for Diageo. That was the market's reaction to the resignation of Bernard Arnault, head of the French luxury goods group, from Diageo's board. For Diageo investors, the fear is that LVMH will rapidly sell down its 11 per cent stake in Diageo, worth about £2.6bn. Selling the lot would roughly wipe out LVMH's net debt. But while Mr Arnault's acquisitive appetite remains strong, he is unlikely to spend that much at once. Sanofi's beauty business, which he cast his eye over recently, would have cost less than a quarter of that.

Diageo
Share price relative to the FTSE All-Share Index



Source: Datastream/ICV

More of a niggling thought is that the sight of Diageo's shares back above 700p suggested that a bit of profit taking might be in order. A price/earnings ratio above 20 was looking a bit racy for a group with significant emerging markets exposure. After all, only small parts of its food and drinks portfolio are showing much topline growth. Cue for another share buyback to support the rating.

As for LVMH, the official reason for Mr Arnault's Diageo departure is "pressure of other commitments". Too true. LVMH's profits are heading down this year because of the Asian crisis. But even in buoyant 1997, operating margins on half the group's sales were in single digits. Rationalisation programmes are under way and Mr Arnault needs to crack the whip. An LVMH share price of around FFr1100 looks a bit rich in advance of concrete signs of improvement.

Air France

As Air France prepares for its partial privatisation, how does it stack up against European rivals? On efficiency, it certainly lags behind KLM, Lufthansa and British Airways. It requires around 70 per cent occupancy to break even, while BA and Lufthansa are estimated to need 62-63 per cent. Clearly, some costs are too high. Air France reckons that its pilots' remuneration was 15 per cent higher than BA's in 1997 and higher still than Lufthansa's.

The good news is that the management has got a realistic strategy in place to deal with this. Furthermore, the fall-out from the Asian crisis does not appear to be hitting Air France as badly as BA, for instance. BA may be paying now for a big increase in capacity. But Air France's turn could come next. It plans to buy up to 70 new aircraft over five years, which could increase its capacity by between 10 and 50 per cent. Air France reckons nabbing market share from the likes of Lufthansa and BA will help absorb extra capacity. Its confidence stems from the fact that Roissy-Charles de Gaulle airport, north of Paris, is expanding, improving its status as a major hub.

But if demand falters across Europe, new runways will not help fill aircraft as much as keen prices and better service. A downturn that hits European airlines will not spare Air France. Potential investors need to be sure the management is determined to keep hacking away at costs.

Hyder

The market's verdict on Hyder, the Welsh multi-utility, has been harsh. Since the UK regulator pronounced on water prices two months ago, Hyder has underperformed the sector by some 15 per cent. Hyder faces one of the hardest regulatory reviews: a big one-off price cut coupled with tough efficiency targets. And there is not much it can do to soften the blow. Unlike some other water companies, Hyder cannot tighten its balance sheet to reduce its cost of capital. Gearing is already high – net debt of roughly £1bn at the interim stage compared with a market capitalisation of £1.1bn. The outlook for dividends is also bleak. The dividend for the full year is set to rise by just 3.3 per cent in nominal terms; further out, dividend cuts are widely forecast.

The current share price arguably discounts much of this. The stock trades on a prospective yield of around 6.5 per cent – well above the sector average. It is also on one of the lowest premiums to regulatory asset base. The shares look cheap, but they are no safe haven. Those hoping the regulator's views will be watered down are likely to be disappointed. They may even get toughened. Meanwhile, Hyder's electricity business also faces a review.

FTC SAYS LINK-UP PRESENTS LITTLE THREAT TO COMPETITION IN OIL INDUSTRY

Regulator gives go-ahead for BP and Amoco merger

By Richard Waters in New York

The oil industry's first mega-merger cleared its last remaining hurdle yesterday as US anti-trust regulators gave the green light to the union of British Petroleum and Amoco.

The two companies are to dispose of 134 petrol stations and reduce their influence in the wholesale market for petrol as a condition of the approval, but those moves will have little impact on the power of the new company, Wall Street analysts said. The two companies have 15,300 petrol stations in the US alone.

The Federal Trade Commission's decision to clear the deal also appeared to increase the chances that the larger merger of two other oil companies, Exxon and Mobil, agreed a month ago, would also pass regulatory muster.

"The FTC is signalling that it is business as usual," said James Clark, an analyst at Credit Suisse First Boston in New York, and that political considerations would not be allowed to disrupt its review of the mergers in the energy industry.

He added, however, that the debate over the Exxon/Mobil merger would probably provoke a bigger "political spectacle", and a more emotional opposition, before eventually clearing regulatory hurdles.

Robert Pitofsky, FTC chairman, said: "Although the merger of BP and Amoco involves companies of enormous size, and there is a significant trend toward concentration in the petroleum industry, the operations of these two companies rarely overlap in a way that threatens competition."

He added that where overlaps did occur, there had been "significant divestitures and other relief that make it likely that consumers will enjoy the benefits of competition".

The FTC chairman also indicated that the Federal agency might take a tougher attitude to mergers in the energy industry in the future, if further deals were to lead to a progressive concentration of power.

This was taken on Wall Street as a general warning shot rather than a sign that other potential mergers between oil companies would face an uphill battle with the regulators. Mr Clark said the Exxon/Mobil merger was so large that it would create a regulatory "umbrella" under which later deals would be able to shelter.

The FTC said it had also taken steps to ensure that competition in the wholesale market for petrol in the US does not become distorted. BP and Amoco will give about 1,600 independent petrol stations the option of cancelling supply contracts. Also, the two companies have already reached an agreement to sell a number of product storage terminals to Williams, a rival distribution company.

BP's shares fell sharply yesterday, reflecting both profit-taking and a degree of volatility as Amoco leaves the Standard & Poor's 500 index. BP's American Depositary Receipts stood at $84⅜ in early afternoon trading in New York, a fall of $5¼.

The merger will be completed at 7pm in London today, the companies said, with BP retaining its place in the FTSE 100 index when trading in the shares resumes on Monday.

China almost on target with robust 7.8% growth in GDP

By James Harding in Shanghai

China reported yesterday what is likely to be the fastest economic growth in Asia this year, with the 7.8 per cent expansion in gross domestic product just marginally below government target.

The official figures, just short of the politically important goal of 8 per cent growth, suggested China's huge programme of government infrastructure spending and state sector investment had offset weak domestic demand and zero export growth.

But the remarkably robust performance of the Chinese economy, in stark contrast to other countries in Asia ending 1998 in deep recession, raised concerns among some economists that the headline growth figures were inflated.

Mao Yushi, an economist at the Unirule Institute of Economics think-tank in Beijing, said: "The GDP figure is dubious...there must be some local governments trying to please the central government by reporting inflated statistics."

The State Statistical Bureau said GDP in the fourth quarter rose by about 9 per cent year-on-year, underlining how the fiscal spending programme has revived flagging growth in the second half of 1998.

Zhu Rongji pledged when he became prime minister in March that China's economic growth for 1998 would not drop below 8 per cent. After growth slowed to 7 per cent in the first half of this year, Beijing sought to reflate the economy by spending on roads, railways, housing and telecommunications networks.

State investment rose 23.2 per cent year-on-year in the third quarter and about 24 per cent in the fourth quarter. Overall fixed asset investment rose by 15 per cent for the year, the statistical bureau reported yesterday.

Liao Qun, senior economist at Standard Chartered in Hong Kong, said: "The fiscal expansion policy is working, decline has bottomed out and growth momentum will continue." He forecast China's economy would grow by 7.5 per cent in 1999.

But some analysts have warned against heavy reliance on state-directed investment, citing the risk of another asset bubble.

Behind the headline growth figures, which showed the value of GDP in 1998 at RMB7,974bn ($960.7bn), the statistics also underlined some of the problems affecting the Chinese economy.

The benchmark retail price index was down 2.6 per cent in 1998, showing that deflationary pressures may have moderated but that slow consumer demand and industrial overcapacity mean prices remain sharply lower.

Exports – the force behind China's 8.8 per cent economic growth last year – were flat at $182bn compared with $182.7bn in 1997.

CONTENTS

News

Features

Companies & Finance

Markets

Ariel Sharon, Israeli foreign minister, alone in the Knesset. Politicians are switching parties to find the best candidate for Israel's next premier

FT.com
FINANCIAL TIMES

Directory of online services via FT Electronic Publishing

FT.com: the Financial Times web site; online news, comment and analysis.
http://www.FT.com

The Archive: online archive of back issues of the newspaper since July 1996.
http://www.archive.FT.com

Newspaper subscriptions: information, offers and online ordering.
http://www.ft.com/newspaper/subscribe.htm

FT Annual Reports Service: online ordering of annual or interim reports and accounts of 1200 UK plcs
http://www.ft.com/newspaper/222a.htm

FT Group: directory
http://www.ft.com/about/fandly.htm

Cityline: how to get share prices and market reports by telephone and faxback.
http://www.ft.com/newspaper/2176.htm

Surveys: details of forthcoming editorial surveys.
http://www.ft.com/newspaper/2366.htm

FT WEATHER GUIDE

Europe today

There will be snow in Norway and snow showers in Sweden and Finland. Denmark will be mostly cloudy but dry. The Low Countries, Germany, Austria, Switzerland will be mostly cloudy with outbreaks of light rain and drizzle, which will fall as sleet and snow over the mountains. Spain, Portugal and most of France will have rain. The rest of the Mediterranean will have a mixture of sun and scattered showers.

Five-day forecast

North-west Europe will remain changeable with the mild weather continuing but rain arriving from the Atlantic on strong winds. Spain and Portugal will become mainly dry with sunshine but central parts of the Mediterranean will have thundery downpours which will clear into the east.

Situation at midday. Temperatures maximum for day. Forecasts by PA WEATHERCENTRE

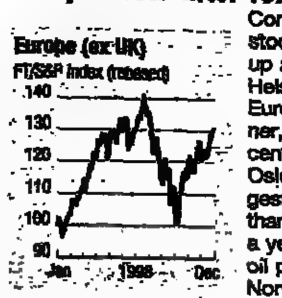
TODAY'S TEMPERATURES (Maximum Celsius)

Abu Dhabi	Sun	28
Accra	Sun	30
Algiers	Cloudy	16
Amsterdam	Cloudy	10
Athens	Fair	13
Atlanta	Fair	10
B. Aires	Fair	28
B.ham	Fair	8
Bangkok	Sun	33
Barcelona	Rain	[illegible]
Beijing	Sun	0
Belfast	Shower	5
Belgrade	Sun	1
Berlin	Fair	3
Bermuda	Fair	21
Bogota	Thunder	18
Bombay	Sun	32
Brussels	Rain	[illegible]
Budapest	Fair	3
C.hagen	Cloudy	2
Cairo	Fair	20
Caracas	Fair	30
Cardiff	Shower	8
Casablanca	Shower	15
Chicago	Sun	-9
Cologne	Fair	9
Dakar	Sun	25
Dallas	Cloudy	17
Delhi	Sun	22
Dubai	Sun	28
Dublin	Rain	9
Dubrovnik	Sun	11
Edinburgh	Cloudy	6
Faro	Shower	14
Frankfurt	Fair	5
Geneva	Fair	2
Gibraltar	Rain	15
Glasgow	Cloudy	7
Hamburg	Fair	[illegible]
Helsinki	Snow	1
Hong Kong	Fair	19
Honolulu	Sun	27
Istanbul	Fair	7
Jakarta	Thunder	[illegible]
Jersey	Shower	[illegible]
Johannesburg	Thunder	25
Karachi	Sun	28
Kuwait	Fair	21
L. Angeles	Sun	20
Las Palmas	Fair	22
Lima	Cloudy	23
Lisbon	Shower	[illegible]
London	Rain	[illegible]
Lux.bourg	Rain	5
Lyon	Cloudy	9
Madeira	Shower	19
Madrid	Rain	5
Majorca	Rain	14
Malta	Shower	17
Manchester	Cloudy	8
Madras	Thunder	30
Melbourne	Fair	28
Mexico City	Sun	22
Miami	Sun	24
Milan	Rain	4
Montreal	Fair	-13
Moscow	Fair	-3
Munich	Fair	6
Nairobi	Fair	27
Naples	Sun	13
Nassau	Fair	25
New York	Cloudy	-1
Nice	Rain	11
Nicosia	Shower	17
Oslo	Snow	0
Paris	Shower	[illegible]
Perth	Thunder	31
Prague	Fair	4
Rangoon	Sun	33
Reykjavik	Cloudy	3
Rio	Thunder	31
Rome	Fair	12
S. Frsco	Rain	14
Seoul	Sun	-1
Singapore	Thunder	29
Stockholm	Cloudy	1
Strasbourg	Fair	5
Sydney	Shower	25
Tangier	Rain	13
Tel Aviv	Shower	19
Tokyo	Fair	6
Toronto	Snow	-7
Vancouver	Rain	8
Venice	Fair	5
Vienna	Fair	0
Warsaw	Fair	-1
Washington	Cloudy	0
Wellington	Fair	20
Winnipeg	Fair	-14
Zurich	Fair	[illegible]

FINANCIAL TIMES
COMPANIES & MARKETS
© THE FINANCIAL TIMES LIMITED 1998 THURSDAY DECEMBER 31 1998 Week 53

INSIDE

Europe rests after rollercoaster year



Continental European stock markets had an up and down year. The Helsinki bourse was Europe's runaway winner, soaring 105 per cent in dollar terms. Oslo was Europe's biggest loser, falling more than 30 per cent during a year in which crude oil prices halved, hitting Norway's oil-dependent economy. Regardless of performance, the theme across much of Europe has been preparation for the introduction of the euro. Page 30

Who knows what will happen?

How will Europe's listed companies do in 1999? Optimistic company analysts, concentrating on the strengths and weaknesses of individual businesses, conclude that next year will bring strong profits growth. But equity strategists, who focus on macroeconomic predictions, are warning investors to prepare for some unpleasant surprises. Page 14

Mellon's Cahouet stands down

If anyone sums up the last 10 years in US banking, it is Frank Cahouet (left), who stands down as chief executive of Pittsburgh's Mellon Bank on January 1. When he took over in 1987, Mellon was ailing because of unwise loans to real estate developers and to Latin America. He moved it from corporate to consumer banking, and from traditional lending towards lines of business that generate fees, such as custody, consultancy and fund management. Mellon also successfully became an international company, while many rivals had to retreat from ill thought-out foreign expansions. Page 15

Pemex tries to beat the bandits

Petroleos Mexicanos (Pemex), Mexico's national oil company, is to increase its policing budget by 20 per cent in 1999 as its ducts come under increasingly frequent siege from organised gangs and its pipes are beset by petroleum bandits. Page 15

Sterling fall linked to Ecu arbitrage

Sterling took a tumble below DM2.80, with some market participants pointing towards the long-predicted sell-off of the sterling part of theoretical Ecu baskets as the reason. Page 18

Merger speculation lifts Paris

Another strong day for defence conglomerate Thomson-CSF, which was buoyed by merger speculation, helped lift Paris on an otherwise dull day for European stock markets. Page 30

COMPANIES IN THIS ISSUE

CROSSWORD, Page 15

MARKET STATISTICS

Listings by internet companies set to test Wall Street's mood

Strong demand expected despite 'overvalued' shares

By John Labate in New York

A new spate of share listings by internet companies is set to test US stock markets during the first quarter of 1999, as debate still rages on Wall Street about the high valuations achieved by online stocks.

According to Securities Data Company, 14 internet initial public offerings and five secondary offerings are registered with the Securities and Exchange Commission. They will likely reach the market in January or February.

A number of these companies are expected to generate strong demand despite concern that many internet stocks are overvalued because of narrow share bases, slight revenue bases and non-existent profits.

Investor demand for online shares remains high. Many leading companies such as Amazon.com, Yahoo! and America Online remain at or near all-time trading highs. The trend is expected to draw more private companies that shelved IPO plans due to market volatility only a few months ago into the public markets.

"It's going to be strong, especially in the internet sector," said Steven Tuen, director of research at IPO Value Monitor. "The [recent] momentum is going to carry over at least into January."

iVillage, an online community chat service run from New York City, is expected to launch in early February through underwriter Goldman Sachs. An earlier planned IPO for iVillage was postponed, but the offering is now expected to raise about $40m. Although small, the company is considered a leader in providing content and links targeted mainly at women. It runs 12 channels covering family, health, shopping and travel, and has a core audience 84 per cent female.

Marketwatch.com is another eagerly awaited IPO. Formed in late 1997 and 50 per cent owned by broadcaster CBS, the company provides business and financial news to online subscribers. The issue of 2.75m shares could be priced by the second week in January, with an expected offer price range of $10 to $12 a share.

Publisher Ziff-Davis is also expected to launch an IPO of ZDNet, an offering that could raise nearly $100m. News of the offering's registration sent Ziff-Davis shares higher in recent weeks. Other IPO launches expected in the first quarter include Prodigy Communications, a provider of online services, and barnesandnoble.com, the online retail arm of bookseller Barnes & Noble which recently had a $200m infusion from Bertelsmann of Germany.

The two-month frenzy in internet share prices peaked in the days before the Christmas holiday, as expections of strong online holiday sales boosted sentiment. Since early November, the Internet Index of the American Stock Exchange – a broad basket of online shares – has more than doubled, closing yesterday at 639. The market is expected to cool as holiday results are announced in January.

Arnault resigns from Diageo board

By John Willman in London and Samer Iskandar in Paris

Bernard Arnault, chief executive of LVMH, the French luxury goods and drinks group, yesterday resigned from the board of Diageo.

The move is seen as a prelude to the sale of LVMH's 10.89 per cent stake in the UK food and drink company.

Mr Arnault said he felt unable to make a full contribution to the Diageo board and wanted to devote himself to his primary responsibilities. He added that his resignation would make no difference to the trading partnership between United Distillers & Vintners, Diageo's drinks subsidiary, and LVMH's Moët Hennessy division.

But people in both groups acknowledged the decision was likely to presage the sale of LVMH's shareholding in Diageo which the French group has already said is not strategic. Last month it announced it would no longer consolidate its share of Diageo's profits in its own accounts.

LVMH shares rose FFr21 to FFr1,108 after the announcement, amid speculation of a sizeable acquisition to bolster its luxury goods interests which include Christian Dior products.

The group's FFr6.5bn ($1.15bn) bid for Sanofi Beauté, the beauty products company which distributes Yves Saint Laurent cosmetics, was withdrawn last week. LVMH said discussions had revealed difficulties in merging the two companies' perfume brands.

As long as Mr Arnault remained a director of the British company, LVMH would be unable to sell in the two-month closed periods leading up to each of the two half-yearly results announcements. The next closed period – for the first-half results on March 11 – begins on January 11.

Diageo shares fell 21p to 684p on fears that a disposal was imminent.

"As a Diageo director, there were four months in every year when he couldn't sell the shares," said an analyst. "Now he can move whenever he wants to."

Lex, Page 12

TRANSACTIONS TUMBLE FROM 675 TO 573 OVER YEAR, DESPITE WORLD'S BIGGEST INITIAL PUBLIC OFFERING

Autumn share slide puts the brake on new equity issues

Global equity issues league table

Investment bank	Value ($bn)	Number of issues	% share
Goldman Sachs	18.89	64	16.24
Warburg Dillon Read	12.73	33	10.99
Morgan Stanley	9.54	62	8.20
Merrill Lynch	7.37	47	6.33
Credit Suisse First Boston	6.13	28	5.27
ABN AMRO	5.55	37	4.78
JP Morgan	5.19	12	4.46
Paribas	4.81	19	4.13
Salomon Smith Barney International	3.84	27	3.30
Deutsche Morgan Grenfell	3.65	27	3.14

Source: Capital Data

By Vincent Boland

The stock market slide in early autumn severely dented the volume of new equity issues in 1998, despite several huge deals including the world's biggest initial public offering, according to figures on issuance activity.

By mid-December, $116.4bn had been raised in international share offerings, compared with $116.6bn for all 1997, according to Capital Data Bondware, which monitors equity issuance activity. The number of transactions also fell to 573 from 675 last year.

While Goldman Sachs extended its lead in the league table of investment banks that underwrite IPOs as bookrunners, Warburg Dillon Read displaced other big US houses to gain the number two spot and signal a revival for European banks in the fiercely competitive underwriting market.

Goldman's own IPO was the most notable casualty of the market correction in the third quarter, which saw investors rush for the exits and several other significant share issues postponed. Some bankers said yesterday the new issues market had not yet recovered its poise, which could affect investor sentiment towards the IPO market into next year.

"The confidence is not in the market to the extent implied by the rise in share prices in the past few weeks," said an equity capital markets executive at a London bank.

Goldman's position as the leading equity underwriter was given a huge boost by the stock market listing in October of NTT DoCoMo, the Japanese mobile telecommunications company. The bank lead-managed the international tranche of the $18.4bn IPO, the world's biggest, and netted a huge chunk of the estimated $500m in fees the deal generated for investment banks.

Goldman underwrote $18.9bn of global issues as bookrunner in 1998, up from $17.4bn in 1997. It also raised its share of the market from 15 per cent to more than 16 per cent. Its chief US rivals, Morgan Stanley Dean Witter and Merrill Lynch, saw their market shares fall slightly, and Morgan dropped one place in the rankings to number three.

Warburg's share of the market was slightly lower than in 1997, but several large deals helped it to rise to second place. It was also the leading bank in underwriting equity-linked issuance. Convertible and exchangeable bond issuance is at record levels, and bankers say it should continue to feature prominently in 1999.

Whatever the performance of the banks, however, 1998 was not a vintage year for IPO performance. New US equity issues, excluding those of internet companies, are returning less than 1.5 per cent to investors this year. Individual deals have fared better, particularly among some of the big European transactions of 1998.

Fund managers expressed disappointment with the overall performance of the IPO market. They blamed it on the downturn in the third quarter and on an excess of telecoms issues, which continued to dominate the European sector.

"Telecoms issues tend to be large, liquid, defensive, reasonably valued and not very exciting," said one London-based fund manager. If size was an important factor in ensuring the completion of deals in 1998 on a global basis, the most eye-catching IPOs were among tiny US internet stocks.

None shone like theglobe.com, whose shares closed more than 600 per cent higher when they made their debut amid a frenzy over the prospects for online commerce.

As bankers did their end-of-year sums yesterday, they were optimistic about the prospects for 1999 with the flotation of Air France expected to be the first big European deal of the year.

Nissho Iwai secures credit

By Paul Abrahams in Tokyo

Nissho Iwai, the troubled Japanese trading house, yesterday secured a Y600bn ($5.2bn) line of credit from Japanese banks and revealed a restructuring programme.

The group has been struggling with poor profitability at its core operations, as well as big losses on its securities holdings and at two non-bank financing subsidiaries.

The group said it would cut its parent-company workforce by nearly 25 per cent, from about 4,100, mainly through attrition, early retirement and cuts in the graduate intake. Further losses would be achieved by moving employees to subsidiaries. "In the past, job reductions at a parent level have not resulted in cuts on a group basis," it said. The line of credit was provided by a syndicate led by Sanwa Bank. It included Dai-Ichi Kangyo Bank, Bank of Tokyo Mitsubishi, Daiwa Bank, Toyo Trust, Norinchukin Bank, the Industrial Bank of Japan and Asahi Mutual.

The funds would be used for cash flow purposes and to help repay Y70bn of bonds due by the end of March. About Y270bn of commercial paper was due next year.

Nissho Iwai has been struggling to issue new paper since Moody's cut the group's debt rating to non-investment grade. The group's net debt to equity ratio at the end of September was 1,700 per cent.

The company is unable to issue new equity because although the shares jumped 6.6 per cent yesterday to Y96 on the news, they were trading at Y466 two years ago. The group had expected to post a parent company net loss of Y44.5bn in the year to March and a consolidated group loss of Y79bn.

It will pass its dividend for the first time. Contributing to the bad results will be a Y146.7bn extraordinary provision. This will be used to write off losses at NI Finance – the finance company it is liquidating – as well as at other subsidiaries.

NI Finance's closure will help Nissho Iwai reach its target of reducing assets within three years by Y800bn on a parent basis, and Y1,600bn on a consolidated level.

To reduce costs, the company said it would cut 19 of its 159 overseas bases, reduce the pay of its directors, advisers and managers and cut entertainment expenses.

Crisis hits London exchange

By Clay Harris and Vincent Boland

Independent traders on the London International Financial Futures and Options Exchange have had their capital frozen after UK regulators shut two derivatives firms in the biggest crisis for the market in almost four years.

Although the sums involved in the closure of GLH (Derivatives), and the London branch of Chicago-based Griffin Trading Company, which cleared its derivatives trades, are small compared with those in the collapse of Barings in 1995, the latest development raises questions about UK regulation of London's multi-billion dollar derivatives markets.

The closure follows losses of at least $8m believed to have been incurred by John Park, one of the independent traders known as locals associated with GLH.

Mr Park is believed to have bought 9,000 contracts – a large position for an individual trader – for German government bonds just before the close on December 22.

The central question relates to local non-GLH traders who cleared through Griffin and now appear to have been inadvertently caught up in its collapse. One said Griffin's UK head had assured him early last week, as rumours of GLH's difficulties spread, that the money of non-GLH customers was not at risk. By Tuesday, the trader was told that his money was frozen.

The Securities and Futures Authority yesterday cited Griffin's failure to maintain sufficient funds in segregated client accounts to meet client money requirements as one reason for ordering its closure. John Foyle, Liffe's deputy chief executive, said last night that locals could not remove their capital without SFA permission. "This has the effect of protecting the customers to ensure that their funds and market positions are dealt with in an orderly and fair fashion," he said.

Eurex, the biggest European derivatives market, confirmed it had placed Griffin on "trading hold status" – effectively suspending it from trading on the exchange, of which it is a non-clearing member.

The GLH trader incurred its losses trading on Eurex.

For Griffin, the impact of the closure may not be limited to London. Calls to its Chicago headquarters yesterday were referred to its lawyers.

TRANSPORT INDIAN CARMAKER HOPES FOR INCREASED VOLUMES FOR ITS SMALL VEHICLE

Maruti cuts car price to lift sales

By Amy Louise Kazmin in New Delhi

Maruti Udyog, India's largest carmaker, yesterday cut the price of its best-selling Maruti 800 by nearly 12 per cent in a bid to stimulate sluggish car demand and make the vehicles affordable to more Indian consumers.

The Maruti 800, already one of the cheapest cars in the world, will now sell for $4,352. Maruti also cut the price of the diesel version of its upmarket small car, the Zen, by nearly 8 per cent.

"The market is very sluggish. We want to expand the market," said R.S.S.L.N. Bhaskarudu, Maruti managing director.

The price cuts were announced just before Tata Engineering and Locomotive Company (Telco), part of the Tata Group, launched its own small car, the Indica. Many analysts say the vehicle is likely to prove stiff competition for Maruti.

Until this year, Maruti, a 50:50 joint venture between the Indian government and Suzuki of Japan, had a monopoly over India's small car segment. Its sales consisted primarily of Maruti 800s, with the Zen appealing to more affluent buyers.

The Indica has been billed as India's first domestically-built small car, and Telco will be able to build about 200,000 a year by 2000.

In India's price-sensitive car market, analysts expect it to be a popular choice among buyers looking for alternatives to the omnipresent Marutis.

The diesel Indica is likely to attract motorists looking to capitalise on the lower price of diesel fuel. In India, petrol prices are kept high to subsidise kerosene. Diesel is thus far less expensive.

The standard petrol version of the car has been priced between the Maruti 800 and the Zen, at around $6,100. Tata has also priced a diesel version of the Indica slightly lower than the standard Zen.

This autumn, Korean rivals Daewoo and Hyundai each unveiled their own small cars, which compete directly with the Zen. With more competition at the higher end of the small car market, dealers say Maruti is looking for growth by making its cheapest car more accessible to first time buyers.

From February, Maruti will have the capacity to produce an additional 100,000 cars a year. Officials said this would be dedicated mostly to producing Maruti 800s and Zen.

In November, Maruti was forced cut production, and reduced its casual labour force by nearly 20 per cent due to a slump in sales. However, with the price cut, Mr Bhaskarudu said he expected volumes to increase.

Crystal ball gazers' vision hampered by the clouds

The economic upheavals of 1998 have heightened the traditional divergence of opinion between strategists, reports **Michael Peel**

There is new year conflict in the ranks of those paid to predict the fortunes of Europe's listed companies in 1999.

The dispute reflects the traditional divergence between the optimism of company analysts, whose forecasts focus on the strengths and weaknesses of individual businesses, and the more cautious approach favoured by equity strategists, who focus on macro-economic predictions.

While the analysts' methodology has led them to conclude that next year will bring strong profits growth, most strategists are warning investors to prepare for some unpleasant surprises.

There are also differences within the strategists' camps over the degree of disappointment shareholders will face. While some warn that slower economic growth could mean that profits barely increase, others think interest rate cuts, consolidation and continued corporate restructuring may yet help corporate Europe post a double-digit percentage earnings rise.

No strategist, however, is as confident as the analysts, who seem relatively unperturbed by a year of economic turmoil. Figures from IBES, the research company, show that analysts have raised their 1999 earnings per share predictions for Europe, excluding the UK, by 4.9 per cent since December 30 last year.

Most strategists think this increased optimism fails to reflect the worsening macro-economic environment in Europe.

"The market may be severely underestimating the extent of the earnings disappointments to come next spring on the back of a severe slowdown in industrial activity," says David Bowers, European equity strategist for Merrill Lynch. "Higher multiples, inspired by low bond yields, may not offset the deterioration in earnings."

Credit Suisse First Boston said earlier this month that its profits growth projections for continental Europe next year were just over half the analysts' consensus forecast of 14.3 per cent.

It said its figures reflected the prospect of deflationary pressure and the likelihood of recessionary levels of growth in nominal gross domestic product. Even the more upbeat strategists think analysts have failed to take sufficient account of external factors that are likely to depress profits.

Oil stocks are widely seen as over-rated, given the low price of oil, and bank profits are expected to be hit by further provisions related to falls in emerging markets.

Some prefer, however, to emphasise the healthier position in Europe's other big sectors. Mike Young, European strategy director for Goldman Sachs, says utilities, insurance companies and pharmaceuticals groups, which together account for about a third of the continental European market by capitalisation, are all in reasonable shape.

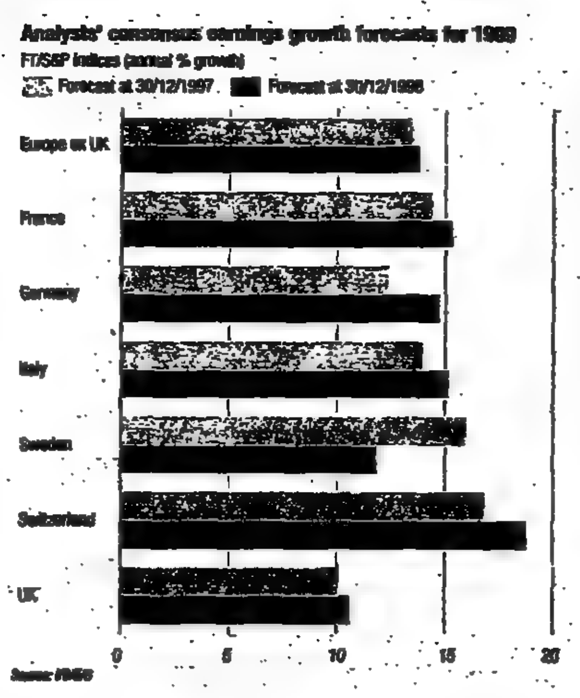
He says that fundamental strength, combined with efforts by central banks to ease monetary policy, means that the analysts' case is only marginally overstated.

"The near-term numbers have been pretty awful," he says. "But if you look at the long-term effects in terms of interest rate cuts, by later next year life begins to look a lot better."

Another reason for optimism, say some, is that many European companies have in the past two years carried out restructuring programmes that will enhance profitability. Research by Dresdner Kleinwort Benson suggests the proportion of businesses taking restructuring charges rose from about 12 per cent in 1996 to more than 20 per cent last year.

Many strategists think the effects of this shift will soon become apparent. "The downturn is the first real test of the restructuring story in Europe," says Ian Harnett, director of European strategy for BT Alex Brown. "If they [companies] haven't got leaner and meaner in the good times, they are going to find it much more difficult now."

There are disagreements, however, about the likely consequences for corporate earnings. Dresdner Kleinwort Benson says careful study of operating margins among US non-financial businesses reveals no conclusive evidence that restructuring results in a consolidated rise in profitability.



Source: IBES

That view is supported by academic research, says Richard Davidson, European equity strategist for Morgan Stanley Dean Witter. "It shows that the restructuring charge that is taken is as big as the gains in future productivity," he says.

He nevertheless argues that restructuring is still beneficial, particularly for companies that need to keep prices low in order to compete in cyclical markets. Cost cutting and production improvements often save companies from becoming less profitable, even if they do not actually enable them to increase earnings.

However, problems arise if analysts ignore this subtlety and load their forecasts with unrealistic predictions of higher profitability. "We are not negative on restructuring," says Alexander Ions, a European equity strategist at Dresdner, "but in a number of European sectors we think the effects of restructuring may have been wrongly priced."

Now that an economic downturn is widely predicted, most strategists see cuts to analysts' forecasts as inevitable and necessary.

One strategist says that the forecasts are generally regarded by his profession as "a bit of a joke". He says: "Throughout history they always have been higher than they turn out to be and higher than what strategists tell you they will be."

Hungary injects Ft152bn into bank

By Kester Eddy in Budapest

Hungary yesterday approved a capital injection of Ft152bn ($703m) to recapitalise the troubled Postabank, the country's fifth largest commercial bank.

The injection, consisting of Ft20bn in cash and Ft132bn in state bonds, will give the state almost total control of the bank and enable it to remain solvent in the wake of expected losses of some Ft158bn this year.

The move came as the bank's new management accused their predecessors of intentionally manipulating figures.

Under the deal with the government, Postabank will also transfer a portfolio of non-performing assets with a book value of Ft153bn to a state-owned company at a 70 per cent discount.

This portfolio will carry a state guarantee of Ft71bn, raising the potential cost of the state bail out up to Ft223bn.

Postabank, founded in 1988 as a private bank but partially owned by state institutions, was headed until August by what officials at an extraordinary general meeting yesterday described as a "one man show", an apparent reference to former chief executive Gabor Princz. Mr Princz enjoyed excellent relations with the former governing Socialist party.

A statement issued by the new management, which first took control of the bank last August, accused the previous management of intentionally constructing a "labyrinthine organisation" and of "manipulation of data". It said they had pursued a policy of "growth at all costs", which resulted in state-bail outs and aid worth some Ft60bn under the previous regime.

The meeting approved a revision of the 1997 audit, which raised the banks unconsolidated losses from Ft12bn to Ft30bn.

The bank's auditor, Deloitte and Touche, said the Ft18bn increase in losses resulted from a guarantee provided by Postabank which required provisions, and which the former management did not reveal at the time of the original 1997 audit.

NEWS DIGEST

TELECOMMUNICATIONS

Indonesia sees $600m for sale of Indosat stake

Indonesia's government hopes to raise $500m-$600m by selling about 12 per cent of international telecommunications company PT Indonesian Satellite (Indosat) to foreign investors, Tanri Abeng, state enterprises minister, said. The government would retain 51 per cent of Indosat, he said. Before the sale, Indosat will issue new shares representing around 5 per cent of its total equity to raise funds, Mr Abeng said. Indosat has 1.04bn paid-up shares. The government has a 65 per cent stake in Indosat, which is also listed in New York. This month shareholders approved a plan to issue 54.5m new shares and convertible bonds equivalent to 54.5m shares in early 1999.

Indosat is one of 12 companies included in the first wave of Indonesia's IMF-mandated privatisation programme. The government had previously planned to sell stakes in all 12 by end-March 1999. But the programme was scaled back and Indonesia now expects to sell stakes in seven companies by March. **Reuters, Jakarta**

VEHICLE MANUFACTURING

Renault, Mitsubishi in talks

Mitsubishi Motors, the Japanese car and truck group, is in talks with Renault to supply the French car manufacturer with highly efficient, low-emission petrol engines, according to local press reports. Neither company could be reached for comment because of the new year's holiday. Such a deal would give a boost to Mitsubishi, which has been struggling to improve cash flow after suffering mid-term losses of Y18.3bn this year.

Renault will become the second European carmaker to use Mitsubishi's GDI engines, which the company claims are 35 per cent more fuel efficient than comparable engines. Mitsubishi has a contract to supply Volvo, the Swedish car and truck group, with GDI engines in a venture established in 1991. **Alexandra Harney, Tokyo**

FINLAND

Raisio plans shake-up

Raisio, the Finnish manufacturer of the anti-cholesterol margarine Benecol, announced a divisional reorganisation ahead of its US launch of Benecol next year. The company said its two starch operations would be incorporated as separate companies. Raisio shares closed down FM0.40 at FM55, compared with a 12-month high of FM108.
Tim Burt, Stockholm

GERMANY

Viag lifts Goldschmidt holding

Viag, the German industrial group, said it had increased its stake in Goldschmidt, the speciality chemicals business to 93.1 per cent. Munich-based Viag, which last month announced a merger with Alusuisse of Switzerland, said the move was a further step towards strengthening its chemicals business within a re-focused group.

Financial terms for the deal were not disclosed. Viag increased its stake in the privately-held company through the acquisition of nearly all the shares in an intermediary holding company, ThG Vermögensverwaltung, which in turn held 33.35 per cent of Goldschmidt capital stock and 40.41 of the company's voting stock. Separately Viag is thought to have additionally purchased just over 4 per cent of Goldschmidt capital stock from one of the company's private shareholders. Before yesterday's deal Viag held 56.23 per cent of Goldschmidt's capital stock.
Frederick Stüdemann, Bonn

NOTICE OF RESIGNATION AND APPOINTMENT

BOND/NOTE ISSUES OF JAPAN DEVELOPMENT BANK

NOTICE IS HEREBY GIVEN that pursuant to the Terms and Conditions of the Bond and Note issues listed below, The Long-Term Credit Bank of Japan, Ltd., London Branch, will resign from all its various roles, and its role as Replacement Agent will be assumed by The Bank of Tokyo-Mitsubishi, Ltd., London Branch.

Issuer	Issue Name	Fiscal Agent	Effective Date
The Japan Development Bank	US$300,000,000 6 7/8% Guaranteed Bonds due 1996	Bank of Tokyo-Mitsubishi Trust Company	1/1/99
The Japan Development Bank	US$200,000,000 10% Guaranteed Notes due 1996	Bank of Tokyo-Mitsubishi Trust Company	1/1/99
The Japan Development Bank	US$150,000,000 9 1/2% Guaranteed Notes due 1997	Bank of Tokyo-Mitsubishi Trust Company	1/1/99

NOTICE IS HEREBY GIVEN that pursuant to the Terms and Conditions of the Bond and Note issues listed below, The Long-Term Credit Bank of Japan, Ltd., London Branch, will resign from all its various roles, and its role as a Paying Agent will be assumed by The Bank of Tokyo-Mitsubishi, Ltd., London Branch.

Issuer	Issue Name	Fiscal Agent	Effective Date
The Japan Development Bank	US$300,000,000 6 7/8% Guaranteed Bonds due 1996	Bank of Tokyo-Mitsubishi Trust Company	1/1/99
The Japan Development Bank	US$200,000,000 10% Guaranteed Notes due 1996	Bank of Tokyo-Mitsubishi Trust Company	1/1/99
The Japan Development Bank	US$150,000,000 9 1/2% Guaranteed Notes due 1997	Bank of Tokyo-Mitsubishi Trust Company	1/1/99

All further presentation of coupons and/or Notes should, following the effective date referred to above, be presented for payment at the offices of the other existing Paying Agents, or The Bank of Tokyo-Mitsubishi, Ltd., London Branch, 12-15 Finsbury Circus, London EC2M 7BT (Custody Operations Department), as a new Paying Agent.

Bank of Tokyo-Mitsubishi Trust Company
as Fiscal Agent

Dated: December 31, 1998

NOTICE TO BOND AND NOTE HOLDERS

Notice is hereby given for the following issues that Fiscal Agent / Principal Paying Agent / Agent Bank have changed from The Long-Term Credit Bank of Japan, Limited (London Branch) to The Industrial Bank of Japan (Luxembourg) S.A. 6, Rue Jean Monnet, P.O. Box 68, L-2010 Luxembourg Tel (352) 421617-1 Fax (352) 421617-488/499 Telex 1289IBJLXLU with effective from 31st December 1998.

1) The Industrial Bank of Japan (Luxembourg) S.A. is appointed as the Agent. The Industrial Bank of Japan, Limited London Branch is appointed as the Process Agent ;
The Hyogo Bank International Finance N.V. USD 150,000,000 Subordinated Floating Rate Notes due 2001
New Japan Radio Co., Ltd. USD 20,000,000 Floating Rate Notes due 2000
NKK Corporation JPY 13,000,000,000 6.50 per cent. Reverse Dual Currency Notes due 2001
NKK Capital of America, Inc. JPY 6,200,000,000 5.85 per cent. Notes due 2003
NTT Mobile Communications Network Inc. JPY 10,000,000,000 2.20 per cent. Bonds due 2003

2) The Industrial Bank of Japan (Luxembourg) S.A. is appointed as the Agent. The Industrial Bank of Japan, Limited London Branch is appointed as the Process Agent and the Paying Agent :
Sumitomo Metal Industries, Ltd. JPY 30,000,000,000 7 1/8 per cent. Bonds Due 2001

3) The Industrial Bank of Japan (Luxembourg) S.A. is appointed as the Agent. The Industrial Bank of Japan, Limited London Branch is appointed as the Process Agent and the Replacement Agent :
Japan Airlines Company, Ltd. JPY 10,000,000,000 4 per cent. Notes due October 2000

Dated : 31st December 1998 / The Industrial Bank of Japan (Luxembourg) S.A.

INVERSUD INVESTMENT FUND
Société d'Investissement à Capital Variable
69, route d'Esch
L-1470 Luxembourg
R.C.LUXEMBOURG B-41.737

To our shareholders,

We have the honour to invite you to attend the

ANNUAL GENERAL MEETING

of shareholders of our Company which will take place at the registered office of the fund on January 8, 1999 at 3:00 p.m. for the purpose of considering and voting upon the following agenda:

1. Submission of the Reports of the Board of Directors and of the Independent Auditor;
2. Approval of the Statement of Net Assets at September 30, 1998 and of the Statement of Operations for the year ended September 30, 1998;
3. Allocation of the net results at September 30, 1998;
4. Discharge to the Directors;
5. Statutory Appointments;
6. Any other business which might appropriately be presented for consideration.

Resolutions on the agenda of the annual meeting will require no quorum and will be taken at the majority of the votes expressed by the shareholders present or represented at the meeting.

THE BOARD OF DIRECTORS

BAWAG
BANK FÜR ARBEIT UND WIRTSCHAFT A.G.
(Incorporated with limited liability in Austria)

U.S. $75,000,000
Subordinated Floating Rate Notes due 1999

In accordance with the terms and conditions of the above-mentioned Notes notice is hereby given that the Rate of Interest has been fixed at 5.375% per annum and that the interest payable on the relevant Interest Payment Date June 29, 1999, against Coupon No. 29 in respect of U.S.$10,000 nominal of the Notes will be U.S.$271.74.

Global Agency and Trust Services, Citibank, N.A. London
December 31, 1998

CITIBANK

PERSONAL

CONTRACTS & TENDERS

ATHENS 2004

ORGANIZING COMMITTEE FOR THE OLYMPIC GAMES ATHENS 2004 S.A.

ANNOUNCEMENT OF THE EXTENSION OF THE DEADLINE FOR THE SUBMISSION OF THE EXPRESSION OF INTEREST FOR THE POSITION OF UP TO TWO (2) TECHNICAL CONSULTANTS for Projects of the Olympic Games of the year 2004.

The Organizing Committee for the Olympic Games Athens 2004 S.A. announces the extension of the deadline from the 15th January 1999 to the 25th January 1999, 14:00 p.m., for the submission of applications concerning the expression of interest for the position of up to two (2) Technical Consultants for the Projects of the Olympic Games of the year 2004, as it appeared in the Official Journal of the E.C. (S 241, page 229, 12th December 1998).

Notification

regarding the

5¾% Bearer Subordinated Mandatory Convertible Notes of 1997/2002 with mandatory conversion at maturity into ordinary bearer shares of Daimler-Benz Aktiengesellschaft (WKN 350 340)

With the consummation of the merger as per December 21, 1998 between DaimlerChrysler AG, Stuttgart as acquiring company and Daimler-Benz Aktiengesellschaft, Stuttgart as transferor company, DaimlerChrysler AG grants the holders of the Subordinated Mandatory Convertible Notes of 1997/2002 of Daimler-Benz Aktiengesellschaft the following: for each Note that is converted up to and including June 4, 2002 the holder will receive 0.86631 DaimlerChrysler AG registered shares instead of 0.862 Daimler-Benz Aktiengesellschaft bearer shares.

At the mandatory conversion on expiration (June 14, 2002) the highest and lowest conversion price will be reduced by dividing it by 1.005. For each Note the following number of DaimlerChrysler AG registered shares will be delivered instead of Daimler-Benz Aktiengesellschaft bearer shares:

- if the conversion price (average of the official quotes on the Frankfurt Stock Exchange during the 20 trading days immediately preceding June 8, 2002, rounded to the nearest DM 0.10 according to the generally accepted rules of rounding) is greater or equal to DM 150.87 (adjusted highest conversion price) 0.86631 shares, or
- if the conversion price is less than DM 150.87 but greater than DM 104.04 (adjusted lowest conversion price) the number of shares that results from the division of DM 130.70 by the conversion price, or
- if the conversion price is smaller or equal to DM 104.04, 1.25625 shares.

The shares to be issued for the DM Mandatory Convertible Notes of 1997/2002 will be taken out of conditional capital of DaimlerChrysler AG.

Apart from this the Terms and Conditions of the Warrants of the DM Mandatory Convertible Notes of 1997/2002 will remain effective for and against DaimlerChrysler AG as the new loan debtor.

Stuttgart, December 1998

DaimlerChrysler AG

NEWS DIGEST

...MUNICATIONS

...sia sees $600m fo... f Indosat stake

MANUFACTURING

...t, Mitsubishi in talks

...plans shake-up

...fts Goldschmidt holding

Pemex tackles petrol bandits

By Andrew Downie in Mexico City

Petroleos Mexicanos (Pemex), Mexico's national oil company is to increase its policing budget by 20 per cent in 1999 as its ducts come under increasingly frequent siege from organised gangs and its pipes are beset by petroleum bandits.

The number of known attacks on rural pipelines increased by 33 per cent to 227 in 1998, said Mr Cutberto Azuara Pavon, manager of Pemex's pipe transport division. This cost the state monopoly an estimated 7bn litres of gasoline and diesel. Each theft costs Pemex between $100,000 and $900,000, Mr Azuara added.

Pemex expects to spend at least $10m this year combating the thefts, in part by adding 65 new patrol officers, guards and other specially trained personnel.

The company is also studying several hi-tech ways to beat the bandits, including the use of special devices inside the pipes that alert authorities of ruptures, and reconnaissance planes with infra-red technology to identify night raiders.

Mr Azuara said that of the registered attacks, three quarters took place in those sparsely populated central and southern regions through which a large number of Pemex's ducts run. Some of the thefts are carried out by highly organised gangs driving tankers, while others are opportunist crimes that occur when the pipes split or break.

Although the robberies cost Pemex between US$10m and US$15m each year, a greater worry is "the potential consequences", Mr Azuara said. "These acts put everyone in danger. The people who live near where the thefts occur are put at serious risk."

ENGINEERING FINNISH GROUPS PRODUCE PROFITS LOWER THAN EXPECTED AHEAD OF MERGER

Orders tumble at Valmet and Rauma

By Tim Burt in Stockholm

Valmet and Rauma, the two Finnish engineering groups planning a merger to create one of the world's largest forestry equipment companies, yesterday announced weaker-than-expected 10-month profits amid volatile international demand for paper-making machinery.

Both companies, publishing final figures ahead of the merger, saw orders fall sharply in the period to October 31 following delayed investments by pulp and paper customers and reduced sales in Asia.

That contributed to a 17 per cent fall in pre-tax profits at Valmet, which blamed falling orders for profits down from FM776m to FM644m in the first 10 months of the year – even though sales were virtually unchanged at FM9.44bn.

Rauma saw pre-tax profits fall from FM531m to FM524m in the same period on turnover down from FM8.88bn to FM8.49bn.

Falling order intake from pulp and paper producers, particularly in emerging markets, was one of the main factors behind the decision by both companies to merge.

Yesterday, Valmet signalled the scale of the decline by announcing a 23 per cent fall in its order book to FM6.14bn. Rauma said its order book had declined almost 25 per cent to FM2.67bn in the first 10 months of the year.

By pooling their operations, the companies expect to achieve annual synergy benefits of FM400m a year – by exploiting an enlarged sales and distribution network and by eradicating administrative overlap.

Earlier this month, a similar cost-cutting drive helped persuade Kvaerner, the Anglo-Norwegian engineering and construction group, to merge its pulp machinery operations with those of Ahlstrom, the Finnish paper and engineering company.

Valmet, meanwhile, said it would create "a globally significant" metal engineering and process automation company by merging with Rauma. Neither company, however, gave any details on the likely future of non-core assets such as Valmet's automotive assembly operations or Rauma's rock crushing division.

Of Valmet's five operating divisions, its car assembly business was the only one to report a higher operating profit, although the company did not strip out its exact contribution. Rauma did not publish any divisional profits.

Under the terms of the merger, Rauma shareholders will receive 42.5 per cent of the enlarged group and Valmet investors the balance. The combined market capitalisation is expected to be about FM7bn.

In the first 10 months of the year, earnings per share at Valmet fell from FM7.32 to FM5.99 and at Rauma from FM7.03 to FM6.59.

Cahouet ushered in a decade of change

As chief executive of Mellon Bank leaves, **John Authers** looks at his influential career

If anyone sums up the past 10 years in US banking, it is probably Frank Cahouet, who stands down as chief executive of Pittsburgh's Mellon Bank on January 1 after a tumultuous career.

Before joining Mellon, he ran Fannie Mae, the Federal National Mortgage Association, which has revolutionised US mortgage lending in the past decade, and Crocker National Bank.

He took over at Mellon in 1987 at a time when the bank was ailing from serious bad debts stemming from unwise loans to real estate developers and to Latin America.

He has supervised a drive away from corporate to consumer banking, and from traditional lending towards lines of business which generate fees, such as custody, consultancy and fund management.

While other US banks have licked their wounds after ill-thought out foreign expansions, Mellon has also quietly converted itself into an international company.

And during the year when the long-heralded "end game" of US bank mergers finally took place, Mellon was involved in the two biggest deals which did not happen even though they had found their way into the public domain.

These were Mellon's $18bn bid for Philadelphia-based CoreStates Financial, which it eventually withdrew, and the enormous offer of $24bn for Mellon by Bank of New York, which Mr Cahouet rejected over howls of outrage from corporate governance activists.

He remains unrepentant. Many traditional staples of commercial banking were becoming "commodity" businesses, with low profit margins to match. "It used to be that mortgage banking was a very personal business."

He was also relatively uninterested in the huge commercial loans in which Mellon used to specialise. "There's not much joy in making $6bn loans. The money market can always beat you."

So Mellon made a heavy shift in emphasis towards consumer banking, while investing in businesses it did not think could be commoditised.

Its 1994 acquisition of Dreyfus, one of the best known US mutual fund groups, is still the biggest fund management acquisition made by a commercial bank, and means that Mellon still leads US banks in mutual fund sales.

Mellon also ranks in the top five global custodians, seventh in benefits consulting, and seventh in all investment management.

Internationalisation has proceeded steadily, rather than by making dramatic gestures like Deutsche's proposed acquisition of Bankers Trust.

"We are organised on a product line basis, and we believe in matrix management."

Thus he waited for managers of individual divisions to come with proposals for expanding. Both fund management and custody were businesses where it was difficult to hold on to large clients without taking on international capabilities, and so they were given the green light to make international acquisitions.

"It happened quite naturally from the grass roots."

Hence Mellon has made a series of joint ventures, and relatively small acquisitions – such as its purchase of the UK's Newton Investment Management.

He has no regrets over either of the big bids which got away, however, saying that being any bigger than Mellon's current size (it ranks 21st in assets among US banks) is "not particularly attractive".

He pursued his interest in CoreStates (which was subsequently bought by First Union of North Carolina for $17.1bn) despite his reservations about scale.

"We had something in our mind when we went after CoreStates. We had an important part of the market that they were in, and we saw cost savings coming right out of it. They had a very good customer base, and we saw our ability to augment it," he said.

When BoNY made its "bear hug" bid – it publicised its offer price but never made a tender offer for shares, waiting for shareholders to put pressure on Mellon's management – Mr Cahouet responded within minutes by rejecting the offer, and launching a lawsuit.

BoNY's offer followed the failure of protracted negotiations to agree a friendly merger of equals.

According to Mr Cahouet: "They came back to us, and that exacerbated the situation because in order to do the deal it greatly magnified the amount of costs that were going to come out. There were a lot of businesses where we didn't overlap and it just wasn't going to work."

Frank Cahouet: supervised the drive towards consumer banking

Some analysts differed with this analysis, and there were complaints that Mellon shareholders had effectively been disenfranchised.

But Mr Cahouet points out that the board was elected by the shareholders. And he can also point to longer-term reasons why Mellon's shareholders should put some trust in him.

"If you bought $100,000 in Mellon stock in January 1990, it would be worth more than $1m today.

"We are number two in terms of total return to our shareholders since 1990 out of the top 50 American banks."

Iraqi clashes buoy oil prices

MARKETS REPORT

By Caroline Fossey in London and Nikki Tait in Chicago

Oil's February benchmark contract fell 30 cents to $10.31 a barrel in early trading on the International Petroleum Exchange yesterday. Mild weather in northern Europe and a global oversupply kept prices low although news of a second clash this week between US and Iraqi forces helped the price to rally to $10.40.

Brent averaged $13.37 a barrel in 1998, down from $19.30 the previous year. This is the lowest average price since 1976.

There was a little cheer for beleaguered US hog farmers yesterday. Futures prices rallied at the Chicago Mercantile Exchange in the wake of Tuesday afternoon's quarterly report on hogs and pigs from the US Department of Agriculture.

This shows the US hog inventory has fallen about 2 per cent between September and December, with the number of hog operations down by a fifth on 1996.

Analysts said the report indicated the industry was in full "liquidation mode", as farmers leave the industry in the face of the lowest cash prices for 50 years. "This is the signal we've been looking for – it's going to give optimism to the countryside," said Mike Downs, a floor trader.

Opinions differ on whether current high slaughter rates – running at more than 2m head a week since September – will persist. Most analysts expect them to remain high in early January.

At the CME, near-term futures were showing gains of more than one cent/lb, with the February contract up 1.125 cents, at 33.425, while the June contract added 2 cents, at 49.75.

COMMODITIES PRICES

BASE METALS

LONDON METAL EXCHANGE

(Prices from Amalgamated Metal Trading)

■ ALUMINIUM, 99.7 PURITY ($ per tonne)

	Cash	3 mths
Close	1243-4	1268-9
[illegible]	[illegible]	[illegible]

Precious Metals continued

■ GOLD COMEX (100 Troy oz.; $/troy oz.)

	Sett price	Day's change	High	Low	Vol	Open int
Feb	288.1	+1.0	289.1	287.1	16,473	69,595
Apr	290.1	+1.0	290.9	289.6	286	22,126
Jun	291.8	+1.0	292.7	291.4	126	15,705
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

ENERGY

GRAINS AND OIL SEEDS

■ WHEAT LIFFE (100 tonnes; £ per tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Jan	76.90	+0.25	76.90	76.80	19	629
Mar	78.30	+0.55	78.30	78.00	10	3,054
May	80.25	+0.60	80.25	80.00	20	3,324
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

PULP AND PAPER

■ PULPEX OMLX (US$; 24 air dry tons)

	Sett price	Day's change	High	Low	Vol	Open int
Mar	425.50	–0.50	427.00	424.50	29	494
Jun	441.50	–4.50	441.50	441.50	1	109
Total					40	631

FUTURES DATA

All futures data supplied by CMS.

Wool from Mallett & Co

With Christmas and New Year holidays dominant in most of the main consuming and producing countries of the wool world, those keeping a wary eye out for factors likely to affect prices can only watch the currency markets. The Australian dollar seems to be weakening again after a brief period of recovery. This means that wool internationally may be cheaper to buy after the recess for major consuming countries, unless the wool market itself builds on its short-lived and uncertain pre-Christmas upturn. Fundamentals remain poor, with demand slow and difficult and stocks overhanging the merino market in particular.

SOFTS

■ COCOA LIFFE (10 tonnes; £/tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Dec	902	+30	879	882	1	106
Mar	902	–1	906	890	1,955	58,777
May	923	–1	929	920	318	28,949
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

VOLUME DATA

Open interest and Volume data shown for contracts traded on COMEX, NYMEX, CBT, NYCE, CME, CSCE and IPE Crude Oil are one day in arrears. Volume & Open interest totals are for all traded months.

INDICES

■ Reuters (Base: 18/9/31 = 100)

Dec 30	Dec 29	month ago	year ago
1481.0	1476.1	1470.2	1752.4

■ CRB Futures (Base: 1967 = 100)

Dec 29	Dec 28	month ago	year ago
190.94	189.67		

■ GSCI Spot (Base: 1970 = 100)

Dec 29	Dec 28	month ago	year ago
131.98	130.66	133.48	178.71

LME WAREHOUSE STOCKS (tonnes)

Aluminium	[illegible]	to	[illegible]
Aluminium alloy	[illegible]	to	[illegible]
Copper	[illegible]	to	[illegible]
Lead	[illegible]	to	[illegible]
Nickel	[illegible]	to	[illegible]
Zinc	[illegible]	to	[illegible]
Tin	[illegible]	to	7,710

MEAT AND LIVESTOCK

■ LIVE CATTLE CME (40,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Vol	Open int
Dec	61.825	+0.725	61.900	61.300	529	872
Feb	60.475	–0.125	61.200	60.075	4,342	43,890
Apr	62.975	–0.100	63.700	62.600	1,773	30,995
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

LONDON TRADED OPTIONS

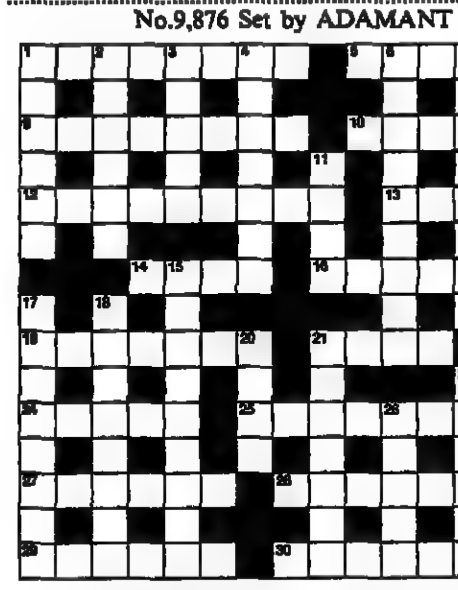
LONDON SPOT MARKETS

JOTTER PAD

For solutions to today's crossword call 0891 430060. Calls cost 50p a minute.

CROSSWORD

No.9,876 Set by ADAMANT



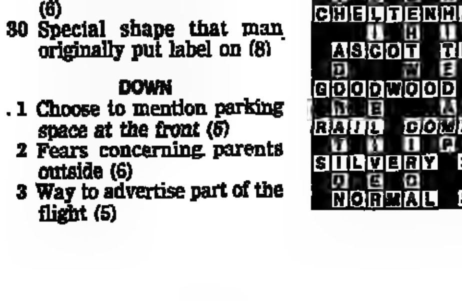
ACROSS

1 Cycle round East Street to the base of the statue (8)
5 Imparted information about good hospital in tense setting (6)
9 Raised tax in English city, lacking sun (8)
10 For example, the Italian bishop came back to love and do a favour (6)
12 Blue an' red pattern – it can be tolerated (9)
13 Society blackens the cesspits (5)
14 Big scale adventure picture – just an excerpt (4)
16 The union can be indisposed over one issue (7)
19 One who jumps up for the person in main command (7)
21 About to cut down on the tobacco (4)
24 No bearing on season at Bury (5)
25 A number containing broken crate of fruit (9)
27 Treat with an element, ie one dozen assorted (6)
28 Duck, perhaps? (8)
29 Lay a snooker on the green (6)
30 Special shape that man originally put label on (8)

DOWN

1 Choose to mention parking space at the front (6)
2 Fears concerning parents outside (6)
3 Way to advertise part of the flight (5)
4 One rib broken? Caught, feeling bitter (7)
6 Made scuba wriggle out of the trap (9)
7 Unpleasant effect of messing around with the river (8)
8 Excuses on time for betrayals (8)
11 Settlement in the wood (4)
15 Their snap decisions are never welcome (9)
17 It pains sir to order the drugs (8)
18 Bit hard to regroup before first year's anniversary (8)
20 Right in front of a French character (4)
21 Cold year, followed by another just the same with severe winds (7)
22 Quoting a sound placement (6)
23 Time to finish working the fibrous tissue (6)
26 Spy hiding information in a tree top (5)

Solution 9,875



PLM denies Rexam full access

By Virginia Marsh in London and Tim Burt in Stockholm

Rexam, the UK packaging and printing group, has been unable to make a full financial analysis of PLM, the Swedish packaging company for which it has bid SKr5.13bn *($634m), after* being denied access to unpublished accounts and other confidential commercial information.

Rexam has been obliged by the London Stock *Exchange to explain to* shareholders that it had been unable to conduct due diligence because, although its offer has been recommended, PLM is not obliged to provide it with confidential information at this stage under Swedish regulations.

The UK group said yesterday that PLM had declined to provide any financial projections until the offer became unconditional.

PLM, which responded coolly when Rexam first launched its bid, said its decision to deny Rexam access was in line with normal corporate practice in Sweden, and that it could not provide it with "any more information than anyone else who might want to make a bid".

Michael Hartnall, Rexam finance director, said the UK group had an advantage in that Rolf Borjesson, its chief executive, had headed PLM for six years before joining Rexam in mid-1996.

In addition, the amount of public information available on the Swedish company was "quite substantial", he said. "They turned down our *requests for information, but* not in anger."

Shares in Rexam rose 7½p to 169½p last night, compared to more than 200p before the deal was announced.

Long stretch: the construction group has won a $134m contract to build a 30km section of the Channel tunnel rail link

McAlpine wins Channel tunnel contract

By David Blackwell

Alfred McAlpine, which recently completed a two-year disposal programme in *order to focus on housebuilding* and construction, has won an £80m ($134m) contract to build part of the Channel tunnel rail link.

Yesterday's announcement, coupled with two other contract wins worth £24m, helped the shares rise 7½p to 146p. That compares with 112p in early October *before McAlpine sold its US* aggregates and civil engineering businesses to Hanson for £72.9m, a sum well above forecasts.

The group said that all three contracts had been won by Alfred McAlpine Civil Engineering on a negotiated basis. This had cut its exposure to less profitable, *adversarial tendering work.*

Ian Grice, managing director of the division, said the group was concentrating on fewer jobs, but on better terms. "Instead of putting in competitive bids we are getting closer to clients and working with them to supply exactly what they want."

The rail link contract is a *joint venture with Amec for* Union Railways and Rail Link Engineering, the project manager. It covers a 30km section from the Medway to Fawkham junction in north Kent. The group also said it had started work on the £74m Eden Millennium Project, which will examine man's relationship with *plants and sustainable land* use. The project – a joint venture with Sir Robert McAlpine – is being constructed near St Austell, Cornwall.

B & B faces campaign to convert to bank status

By Christopher Brown-Humes

Bradford & Bingley, the UK's second largest building society, is facing a campaign to force it to convert to a bank and pay windfalls to more than 2m people.

The challenge threatens a new battle over mutuality, just months after Nationwide, the biggest society in the UK, narrowly defeated an attempt to force it to change status.

Stephen Major, a quantity surveyor from Lisburn, Co Antrim, has submitted a conversion resolution to the B & B just ahead of the year-end deadline.

He has also put himself up for election to the society's board.

Mr Major has submitted the names of 50 members he needs to support his resolutions and these are now being vetted by the society. *To be valid, these must be* savers or borrowers who have been members of the society for at least two years, and have had, continuously, either £100 in a savings account, or a mortgage of at least £100 over that period.

His campaign will fizzle if he has less than the 50 valid supporters, as last year a conversion resolution tabled by Michael Hardern, a former royal butler, failed at the B & B for this reason.

Even if the new conversion resolution is passed at the B & B's annual meeting in April, a formal vote on conversion must still be held.

If the Major campaign proceeds, and B & B is forced to convert, members could receive windfalls of between £1,000 and £2,000 ($3,400).

The society is confident of *victory. Kevin McGuinness,* group secretary, said: "We received very strong backing for mutuality when 400,000 of our members replied to a questionnaire last year."

Like other societies, B & B claims it can offer better savings and mortgage rates to customers than banks because it does not have to pay dividends.

If Mr Major's campaign gathers momentum, the society could face an unwelcome surge in account openings by carpetbaggers seeking windfalls. Unlike other large societies B & B has not put in place a foundation under *which new members are* forced to donate any windfalls to charity.

"We are looking at setting up a charitable foundation, but we still have some work to do," said Mr McGuinness.

Waroms to quit Virgin Vie board

Mark and Liz Warom will today resign as joint managing directors of Virgin Vie, *the cosmetics and toiletries* retailer, which is part of Aim-listed Victory Corporation, writes Thorold Barker.

John Jackson, who has worked with Virgin Vie as a consultant and was managing director of The Body Shop's UK operations for five years, will become chief executive. Mr and Mrs Warom, who helped set up the business in October 1997, will work as consultants to Virgin Vie, looking into the feasibility of licensing the brand in the US.

*Shares in Victory Corpora*tion, which is 66 per cent owned by the Virgin Group and associated shareholders, *have fallen from 41½p to 9p* during the year because of worse than expected results at Virgin Vie.

COMMENT

UK shareholder activism

For all the talk of UK investors taking a more active approach to company management, 1998 has not been a vintage year for corporate shake-up merchants. Investor rebellions have been confined to smaller companies, with the odd exception such as the defeat of LucasVarity's plan to move to Wall Street.

When long-standing underperformers *such as BTR* have been put out of their misery by bids, it has rarely been because investors actively put them into play. Equally, the most notable *management upheavals,* at Marks and Spencer and Barclays, may have had their origins in investor discontent, but the coup de grâce was delivered by non-executive directors.

Established and vocal ginger groups such as UK Active Value and Guinness Peat Group had mixed results. GPG, for example, succeeded in forcing Staveley to demerge its salt extraction business, but was seen off by Young & Co, the brewer. When Blakeney Management, the emerging market fund manager, stepped into the limelight at Lonrho Africa, *the existing management* survived the scrap unscathed.

Philips & Drew has stood out among traditional UK fund managers for its more active stance, but delivering Marley into a bidder's hands by underwriting the offer costs hardly puts it in the realm of US provocateurs such as Calpers or Carl Icahn.

The fact that the most outspoken activists have been Americans, South Africans and New Zealanders cannot simply be put down to the City's clubbishness. UK investors *have failed to co-ordinate their efforts to best effect. If they* have struggled to force change in medium-sized companies where a single fund manager may control 20 per cent of the shares, how will they be heard in a group the size of BP/Amoco?

The heavy investment in UK equities by US value investors this year heralds a greater threat to underperforming boards. This is already starting to have an impact - witness the strongly worded letters to BTR's board from Highfields Capital, a US fund manager that owns just 1 per cent of the engineer.

Such investors, which typically have shorter horizons than UK pension funds or insurers, will be most effective in *small and mid-cap companies. Other investors should not be* surprised if they use their stakes as Trojan horses to bring in private-equity buyers for the companies on which the market has given up.

Hays expands IT outsourcing side

By Virginia Marsh

Hays, the acquisitive *logistics and services group,* is to pay up to £40.3m ($68m) for an information technology outsourcing services company just eight months after it was spun off from Tomkins in a £13m management buy-out.

Hays said yesterday it had acquired Axis Resources *Holdings for an initial cash* payment of £35.3m with up to another £5m payable *depending on the company's* profits up to mid-2001. Hays, which is understood to have approached Axis, will also be assuming the business's *£12m debt.*

Shares in Hays rose 21½p, to 527½p yesterday, down from a year high of 577½p. Axis was sold by Tomkins – the industrial conglomerate that is restructuring to focus on manufacturing – to a management team backed by Lloyds Development Capital and NatWest Equity Partners for £13m in April. The venture capital groups took a *60 per cent stake* with management, which is to join Hays, holding the balance.

Since the buy-out, the *business has maintained its* rapid growth. On a pro forma basis, it made operating profits of £2.5m in the year to October 31 and £3.1m on turnover of £26.1m in the 18 months to October 31. At present it has an order book worth £36m.

The deal takes Hays into *new areas of IT outsourcing.* Axis provides IT consultancy and also manages IT functions for companies. It will also strengthen its relatively *new payroll and billing ser*vices operations.

"Axis is an excellent fit *and represents a further step* in the development of our business processing operations," said Ronnie Frost, Hays chairman. He added that Axis' payroll and human resources activities would provide a link with Hays' personnel division while integrating its printing *services with an existing* Hays business would make the group one of the market leaders in the high growth billing services market.

RESULTS

		Turnover (£m)		Pre-tax profit (£m)		EPS (p)		Dividends: Current payment (p)	Date of payment	Corresponding dividend	Total for year	Total last year
Golden Land Inv	6 mths to Sept 30	0.325	(0.371)	0.173L	(0.058L)	0.3L†	(0.2L)	-	-	-	-	-
Radiant Metal	6 mths to Aug 31	*0.37*	*(0.549)*	*0.025L*	*(0.038L)*	*1.61L*	*(2.78L)*	-	-	-	-	-

Earnings shown basic. Dividends shown net. Figures in brackets are for corresponding period. †On increased capital.

INSIDE TRACK

MANAGEMENT POACHING

The attraction of moving pyramids

Jim Kelly reports that the Big Five accountancy firms have discovered that it is quicker to poach teams from their rivals than build their own

Suddenly *people* are stealing pyramids. The Big Five global accountancy firms are increasingly adopting recruitment strategies once associated more with lawyers and bankers: poaching entire teams of skilled professionals from their competitors.

Not just partners, or groups of partners are being taken, but pyramids which include *senior managers*, analysts and secretaries.

Martin Thorp, head of Arthur Andersen's corporate finance practice, has just landed a pyramid from rival PwC – the firm created by the merger of Price Waterhouse and Coopers & Lybrand. The pyramid, topped by the former head of PW's corporate finance division in Germany, consisted of 32 people, *including* five partners, 10 managers, five executives, five analysts and two secretaries.

KPMG, another of the Big Five, has within the past year picked up several complete pyramids: the Coopers & Lybrand subsidiary Laya Mananghaya & Co in the Philippines – where it sacked its own local firm – Somekh *Chaikin* from Price Waterhouse in Israel, and Siddharta Siddharta & Harsono from Coopers in Indonesia.

A number of factors make poaching particularly attractive:

- The merger which created PwC is seen as the last in the sector. *The Big Five* are desperate to grow but have run out of big-league partners. As PwC works through the practical effects of the merger, it is seen as a *good place to find pyramids* – but other firms have their own problems and are also seen as good hunting grounds.
- Buying smaller firms in their entirety is fraught with danger. Arthur Andersen came unstuck recently trying to buy London *law firm Wilde Sapte when key* partners left before the sale could progress. "I would be very nervous about buying a business," says Mr Thorp, pointing to the problems of acquiring a people business.
- The big firms are fighting over the best people at a time of skills shortages. They are desperate to make the most of a market in which revenues from management consulting are growing at about 50 per cent a year. Corporate finance is also booming. They want to make the most of the good times while they last and need skilled people – from auditors *to information technology* specialists, from corporate financiers to human resource *experts – to staff growth*.
- The globalisation of the biggest multinational companies means the Big Five must live up to their boast of providing a "seamless global service". In reality, several have large holes in their global coverage and poaching provides the quickest remedy. *In* some cases this includes picking up an entire practice – as Andersen has done in South America in the wake of the PwC merger.

'It's a continuum, from head-hunting, to buying niche firms, to the big mergers'

- Diversification means the firms need people whose skills are team-based and revolve around individual transactions. Such groups are much more likely to move en masse.

But how are available pyramids identified? *And how can they be retained once they have* been acquired?

Martin Thorp says he did not go to headhunters although they are used in some cases. "We made a bit of noise in the market place where we felt we were light on the ground," he says. The key *is finding one strong individual* with an outstanding reputation in a business where team chemistry is very strong. In the case of the German pyramid Mr Thorp says: "It was a bet – but a pretty good bet – that the younger people would come along as well."

George Musing, the PW corporate financier who took the bait, then took legal advice about what to do next. "The clear advice was that you can talk to other partners but not to anyone else below that.

But given the environment at PwC we were reasonably confident a number of people would follow us," he said. That environment seems to have been dominated by the large domestic practice of PW's merger partner *Coopers & Lybrand.*

The partners concerned then made their decision public and *left within* a week – after which they were free to approach their former colleagues. "We are not allowed to act in someone else's interests but once our contracts were completed then – at that point – other people could approach us," says Mr Musing.

This rather convoluted process is common as most partner deeds stipulate that those departing cannot solicit others to leave the firm. The rest of the pyramid duly followed, mainly, according to Mr Musing, because of the attractions of Arthur Andersen's approach.

"You've got to be able to cross borders and you have to be relatively *free in the ideas you generate* and the clients you talk to. That was not the environment we were leaving behind in PwC which was very German-orientated," says Mr Musing.

There were no golden hellos helping Mr Musing on his way. "They did not pay us any money to arrive," he adds. "We all had offers from other institutions and decided, as a team, that Arthur Andersen was the best place to be."

Was Mr Thorp worried that the pyramid might bring in people to *his practice who were not up to* scratch? "You do take people who come in on others' coat-tails. But that's OK because you trust the leader," he says. Nevertheless, he did interview all the partners himself.

As far as retention is concerned, *in many organisations* bonuses are used to lock in teams, with payouts being spread over several years. Partnership deeds can be used to restrict any move to compete with the firm or solicit others to move. But Mr Thorp says he is not interested in keeping people who want *to* move. He says he wants to build a corporate finance practice which is different from the *bonus-driven model of the investment* bankers.

He is constructing a rewards system based on "softer" criteria than the hard-edged deal-based model often seen. And, he says, Arthur Andersen's leadership in building a global firm offers unrivalled freedom to operate across borders.

Mr Musing and his team are clearly convinced they made the *right decision.*

Arthur Andersen already had one team in Frankfurt specialising in the *Mittelstand* – Germany's famously strong middle market – but the new team is intended to set the tone for the development of the practice. "We *carry a lot of weight*," says Mr Musing.

But what does it feel like to lose a pyramid ? Philip Wright, *PwC's head of European corporate* finance, seems to have taken the loss in his stride – largely because he has his own eye on several pyramids inside rival investment banks. "It's never good to lose people and we tried to keep them all. But it's a bit *like moving house – once you* think of it there's no going back.

"At the rate we want to grow we are looking at teams in other *business lines as well – like* fraud investigations, insolvency and business regeneration."

Mr Wright sees the phenomenon as part of the increasing flexibility of the Big Five as they diversify from their traditional audit core. "It's a continuum, *from head-hunting, to buying* niche firms, to the big mergers."

TECHNOLOGY FURNITURE DESIGN

Shapely legs brighten up the office

Technology from the motor industry has added excitement to steel furniture design, writes **Laura Blair**

Most modern office desks are hardly things of beauty. Their tubular steel legs are typically made of *round or square sections*, because these are the cheapest and quickest to produce.

Ovals, tapers and sinuous curves are, of course, possible, and in demand at the most style-conscious end of the market. But they are far more complicated to manufacture, often involving casting the tubes in two halves, then welding them together.

Now a technology called hydroforming, long-established in the motor industry where it is used to shape chassis components, is being borrowed by furniture makers to produce shapely office desk legs more cost-effectively. The innovation comes simultaneously from US-based Steelcase Strafor, the world's largest office furniture manufacturer, and the Danish *Skandinavisk Group*. The two rival groups have recently produced new desk systems featuring steel legs *in sinuous shapes* using the hydroforming process.

With hydroforming all the shaping is done in a single step, using a water-and-oil emulsion pumped at very high pressure (500-1,000 atmospheres) into the tube, contained within a mould. The tube is shaped by the combined internal pressure of the *emulsion* and external mechanical pressure from the mould.

This prevents overstressing, and causes a molecular *redistribution* of the metal, ensuring an even thickness whatever the new shape or diameter.

Both groups say they were led *to adopt the new* technology by their designers' lateral thinking. "Good designers are always aware of what is happening in other industries," says Atillio Bersanelli, designer of Skandinavisk's Work range. "I realised that, with hydroforming, I could create beautifully crafted shapes using industrial production methods." Meanwhile Francesco Frascaroli, the designer of Steelcase Strafor's Ionico range, compares the process to "sculpting with water". Like so many Italian designers, both Mr Bersanelli and Mr Frascaroli have engineering backgrounds.

Design freedom apart, hydro*forming has substantial* practical advantages. It is claimed that parts can be produced in one minute that would take 20 minutes by conventional methods, reducing costs by between 20 and 50 per cent.

But hydroforming does have its drawbacks. The special tooling required for each different design involves considerable invest*ment, so the* process is unsuitable for producing small batches. Minimum quantities of 20,000-*30,000 a year of the same part* are required for the technology to pay for itself.

Steelcase Strafor invested L800m (£287,000) and Skandinavisk Fl600,000 (£189,000) in special tooling, though both companies subcontract manufacturing – in *the case* of Skandinavisk to car parts manufacturer IDTS.

Designers also need to develop expertise if they are to exploit hydroforming fully. There would be little point in using it to produce simple designs that could be made just as easily by traditional *metal pressing*. Consequently it is likely to be used only for the most difficult shapes.

The technology is also specific to steel components, since aluminium can be inexpensively formed by more traditional technologies.

"It's a question of horses for courses," says Andrea Orsi, managing director of Steelcase Strafor Italy. "You don't build a Ferrari if you only want to go at 5 kmh."

TECHNOLOGY WORTH WATCHING

Tiny steps for piezoceramic robots represent a huge step for mankind

A coin-sized invention by a *scientist at Switzerland's Ecole* Polytechnique Fédérale de Lausanne could help pave the way for the commercialisation of the micro-robot, *writes* *Christopher Swann.*

Named earlier this month as a prize winner in Monaco's annual pan-European inventors awards, the circular robot is just a tenth the size of models currently used in the assembly of microscopic components.

Its inventor, Jean-Marc *Breguet, says the design* would simplify the manufacture of miniature robots, rendering them more *affordable.*

Instead of having more than 20 components crammed inside a conventional machine, the robot is forged from a *single piece of piezoceramic* – a material which deforms in response to electrical impulses *to allow the robot to move in* tiny steps (5 nanometers).

Micro tweezers attached to a *turret on the top of the robot* can thus be manoeuvred into exactly the right place, with steering achieved by altering the voltage.

Because of its small size – about 5cms across – the robot's micro-tweezers are less prone to the vibrations which reduce the accuracy of its larger rivals.

The device was designed for* the manufacture of integrated fibre-optics but Dr Breguet *says he is keen to adapt the* design so that it can be used elsewhere, for example in the *biotechnology industry.

"We will now concentrate on finding industrial partners to reconfigure the robot for uses related to cell manipulation," he says.

Controlled by a joy-stick under a microscope, the robot *could potentially operate on* DNA strands.

"At the moment industrial *uses for this kind of robot are* quite limited but applications should increase as the trend *towards miniaturisation of* mobile telephones, computers and satellites gathers speed," says Inman Harvey, research fellow at Sussex University's centre of computational neuroscience and robotics.

Jean-Marc Breguet, Lausanne: e-mail Jean-Marc.Breguet@epfl.ch

IN BRIEF

Leap forward with shoes that don't just look smart

A unique "intelligent" shoe, especially designed to take the stress out of walking, running, and leaping, has been developed by Ronald Demon, a senior electrical and computing engineering graduate at the Massachusetts Institute of Technology in the US, *writes Dinah Greek.*

Mr Demon, a keen basketball player, was fed up with finding his feet sore after matches, in *spite of investing in the latest* shoes. He came up with a design which incorporates a series of tiny pressure sensors in the sole of the shoe. These sensors measure the pressure produced by the wearer in a number of zones.

The data collected is *sent* to a tiny microprocessor chip, which is also housed in the sole and activated when the wearer puts on the shoes. The chip analyses the data to "learn" and then predict the gait of the wearer, so that the cushioning and support *built into the shoes can rapidly* be adjusted via a series of tiny valves inserted beneath the sensors. By opening or closing, these valves release either air or a viscous fluid to inflate or deflate bladders in the sole.

Mr Demon is working on refining the system to replace the individual sensors with a sensory grid. The shoe has generated intense interest in the sports world and Mr Demon is in consultation with two big sports goods manufacturers. A fully working prototype will be *available in January.*

Ronald Demon, US: e-mail rdemon@yahoo.com

Dinah Greek writes for Professional Engineering magazine.

Camera takes a flexible view

A wheel-mounted robotic camera that can climb up and down lamp-posts will be able to *monitor crowds at football* matches or undertake covert police surveillance work.

The remote-controlled closed circuit television camera, which can also pan, tilt and zoom, will be more flexible than fixed cameras.

The mobile camera system is being developed by Tecsec, an electronics company, working in conjunction with the University of Wales College Newport, based on technology licensed from Brunel University.

The designers expect the development of the product to take two more years. One of the challenges they will have to overcome is teaching the device to negotiate the fluting and changing diameter of some lamp-posts.

Tecsec Europe: UK, tel (0)1495 752882; e-mail tecsec.europe@virgin.net

Attractions of magnetic memory

Conventional Ram (random access memory) devices need a continuous power supply to maintain the content of their memories. That is why alarm clocks and video recorders have to be reset after a power failure.

One increasingly widely used alternative is flash memory chips, which can retain information when an appliance incorporating them is switched off. Researchers at the University of Utah have developed another *type of memory device with a* similar feature. The memory cell, called a Magram (magnetic random access memory) uses magnetic fields to store data.

The researchers, who are working under contract from Pageant Technologies, part of *Avanticorp International, believe* the device could become standard in computers and other electronic equipment that use memory. It is also likely to reduce the power consumption of portable devices such as laptop computers.

University of Utah: US, tel 5054713027; http://www.utah.edu/

Milking system that follows the herd

Tests are under way on a pioneering robotic milking system that allows cows to follow a more natural pattern of milking, feeding and resting. The system, *undergoing trials on a herd* of 30 cows in Sweden, will go on sale in Europe later this year.

A vision-guided "soft" robot arm attaches the cups to the *cow's teats, which are then* automatically cleaned and dried. The cows are monitored by an automated data collection system.

The system is designed to improve both milking efficiency and the health and welfare of the *animals through better* monitoring.

The prototype of the robot was developed at the UK's Silsoe Research Institute. The rights to the system have been acquired by Alfa Laval Agri.

Biotechnology and biological sciences research council: UK, tel (0)1793 413301; e-mail natasha.martineau@bbsrc.ac.uk

Ruminant with a view: electronic monitoring makes for healthier cows

Flat out for a trouble-free ride

A South African inventor has tackled the problem of bicycle punctures by developing a replacement for the traditional air-filled inner tube.

Although manufacturers have tried to make puncture-proof tubes before, they have tended to result in a heavy-going and bumpy ride. But Jonspeed *Racing*, the UK-based makers of the Flatfree inner tube, says that its product provides the same "give" and cushioning as an air-filled tube. It is made from a *light and resilient mixture of* polyurethane and rubber.

Jonspeed Racing: UK, tel (0)1203 351495; (0)1203 351496.

Vanessa Houlder

CURRENCIES & MONEY

Sterling's fall linked to Ecu arbitrage

MARKETS REPORT

By Alan Beattie

Sterling took a tumble below DM2.80 yesterday, and some market participants pointed towards the long-predicted sell-off of the sterling part of theoretical Ecu baskets as the reason.

The pound, which had been showing some resilience around the DM2.80 level over the past week, abruptly dived at the beginning of the European session. It consolidated around its new level for the rest of the day, closing at the end of London trading at DM2.794.

The dollar also fell yesterday, breaking down below Y115 as sell orders had a disproportionate effect in markets thinned by the approach of the new year holiday and the conversion process for the euro. The dollar closed at Y114.7 at the end of trading hours in London.

■ Some market analysts said that the fall might be connected with the partial unwinding of an arbitrage opportunity identified earlier this year by traders in the foreign exchange markets.

Over the course of the year, the spread between the Ecu traded in the markets and the theoretical Ecu which can be assembled from the constituent currencies has varied considerably.

At one point in October it widened out to over 100 basis points. This means that traders could make money by creating a theoretical Ecu and exchanging it one-for-one with the euro today.

But since the Ecu also contains a substantial sterling component, this implies a potentially large sell-off of pounds around the time the trades are unwound.

Many market analysts have warned that sterling is liable to speculative flows around the launch of the euro. "If arbitrageurs are going to do the thing exactly they will wait until 10.30am tomorrow to sell off sterling," said Chris Furness, of economic consultancy 4Cast, in London yesterday.

"But it seems that many have been running ratcheted stop-loss positions to take advantage of sterling's rise over the past few weeks. When the pound went below DM2.81 many of these would have been triggered and this may explain the sterling sales," he added.

Mr Furness said that the gap between the theoretical and market Ecus narrowed to less than 10 basis points yesterday, which may have encouraged traders to take profits.

But there could still be substantial amounts of Ecu-related sterling to be sold today, and sterling remained vulnerable to further falls below the DM2.79 level, he added.

Market analysts have also identified a potential upwards pressure on sterling from the unwinding of short sterling hedges by Ecu bondholders protecting the value of their positions.

Some think that this could outweigh the downward pressure on sterling of the Ecu arbitrage sell-off, although the effect may now come through until well into the new year when the positions are unwound.

But Jesper Dannesboe, currency economist with ABNAmro in London, said that this was an extremely difficult thing to quantify. "There are stories circulating about billions of pounds worth of potential hedge unwinding," he said. "But the reality is that no-one really knows."

Mr Dannesboe said that the effect on sterling would depend not just on the positions of the bondholders themselves but also the decisions of the market-makers who sold them the hedges.

"Those market-makers may decide to hedge their own exposure to sterling or they may choose to accept the risk and run the position," said Mr Dannesboe.

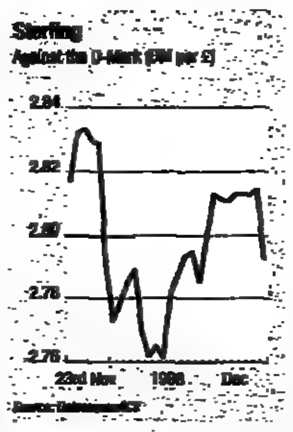
Either way, sterling could be in for a choppy ride both today and in the new year.

"The markets are very alert to the possibilities of both upward and downward pressure on the pound," said Mr Dannesboe. "So if sterling starts moving in either direction, the market may jump on the movement and exacerbate it."

Holding sterling at such a time was a risky policy, he added.

Mr Dannesboe said that in the longer term, he thought that sterling would decline for more fundamental reasons. The present level was unsustainable for long, he added.

Sterling
Against the D-Mark (DM per £)



Source: Datastream/ICV

■ POUND IN NEW YORK

Dec 30	—Latest—	— Prev. close —
£ spot	1.6665	1.6825
1 mth	1.6648	1.6813
3 mth	1.6623	1.6778
1 yr	1.6588	1.6758

■ OTHER CURRENCIES

Dec 30	£	$
Czech Rp	[illegible]	[illegible]
Hungary	[illegible]	[illegible]
Iran	5072.80 - 5011.30	3000.00 - 3000.00
Kuwait	[illegible]	[illegible]
Peru	5.2761 - 5.2778	3.1550 - 3.1580
Poland	[illegible]	[illegible]
Russia	34.0114 - [illegible]	[illegible]
U.A.E.	6.1350 - 6.1367	3.6728 - 3.6732

POUND SPOT FORWARD AGAINST THE POUND

Dec 30		Closing mid-point	Change on day	Bid/offer spread	Day's Mid high	low	One month Rate	%PA	Three months Rate	%PA	One year Rate	%PA	Bank of Eng. Index
Europe													
Austria	(Sch)	19.6535	-0.1441	487 - 633	19.8084	19.6166	19.6028	3.1	19.517	2.8	19.2546	2.0	103.5
Belgium	(BFr)	57.6259	-0.4139	787 - 731	57.9940	57.5370	57.4783	3.1	57.2081	2.9	56.3324	2.2	103.5
Denmark	(DKr)	10.6355	-0.0773	298 - 414	10.7238	10.6198	10.6164	2.2	10.5289	1.9	10.4848	1.4	107.5
Finland	(FM)	8.4935	-0.06	881 - 989	8.5520	8.4790	8.4703	3.3	8.4287	3.0	8.3	2.5	83.0
France	(FFr)	9.3640	-0.0727	601 - 678	9.4397	9.3500	9.342	2.8	9.2864	2.8	9.1496	2.3	107.0

DOLLAR SPOT FORWARD AGAINST THE DOLLAR

Dec 30		Closing mid-point	Change on day	Bid/offer spread	Day's mid high	low	One month Rate	%PA	Three months Rate	%PA	One year Rate	%PA	J.P. Morgan Index
Europe													
Austria	(Sch)	11.7930	-0.0017	580 - 880	11.7730	11.7315	11.761	2.2	11.7065	1.9	11.5665	1.7	103.1
Belgium	(BFr)	34.4800	-	700 - 100	34.5150	34.4100	34.4353	1.9	34.326	1.8	33.845	1.9	103.3
Denmark	(DKr)	6.3855	-0.0025	835 - 875	6.3753	6.3519	6.3802	1.0	6.3405	1.9	6.258	1.1	106.8
Finland	(FM)	5.0835	+0.0008	815 - 855	5.0935	5.0706	5.0751	2.0	5.0581	1.9	4.9885	1.9	82.3
France	(FFr)	5.6045	-0.0032	035 - 055	5.6113	5.5919	5.5957	1.0	5.5782	1.8	5.4887	1.9	106.5

WORLD INTEREST RATES

MONEY RATES

EURO CURRENCY INTEREST RATES

CROSS RATES AND DERIVATIVES

EXCHANGE CROSS RATES

UK INTEREST RATES

LONDON MONEY RATES

EMS EUROPEAN CURRENCY UNIT RATES

BASE LENDING RATES

EURO PRICES

EQUITIES

Europe ends year on quiet note

EUROPEAN OVERVIEW

By Khozem Merchant

The last day's trading on the main continental bourses before the birth of the euro was very thin, continuing the pattern of the past few days.

The FTSE Eurotop 100 index finished down 25.21 at 2,723.87 while the more broadly-based FTSE Eurotop 300 index ended 8.88 lower at 1182.74.

The FTSE Ebloc 100 index, which tracks the shares of the largest companies from countries due to join economic and monetary union next week, settled 2.35 lower at 998.29.

One of the more interesting movers was the French electronics and defence equipments group Thomson-CSF. It gained Ecu 2.2 to Ecu 36.55 on speculation about an alliance with GEC, the UK defence company.

GEC is in the midst of large-scale restructuring, part of a broader overhaul of the European defence and aerospace industry. GEC fell Ecu 1 to Ecu 7.72.

The engineering and electrical equipment sector lost 1.14 per cent. The biggest casualty was ABB, one of Europe's largest electrical and engineering companies, which closed down Ecu 27.5 at Ecu 1,000.21.

The sectoral decline masked some strong performances, such as Legrand which gained Ecu 7.4 to Ecu 225.51.

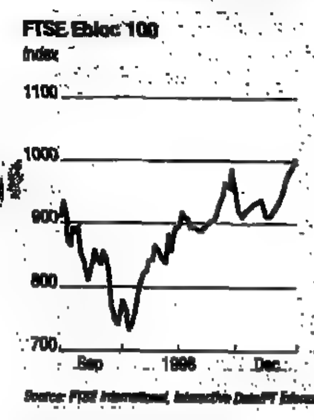
Mergers are likely to be a feature of corporate Europe in the new year as more pan-European industries take shape. Euro-equity markets are likely to be powered by restructurings and share buy-backs, low interest rates and bond yields, and solid earnings growth compared with other industrial countries.

The best performing sectors yesterday were healthcare, which improved 3.22 per cent, and distribution up 3.04 per cent. The tobacco sector lost 3.01 per cent while gas distribution declined 2.05 and alcoholic beverages 1.27 per cent.

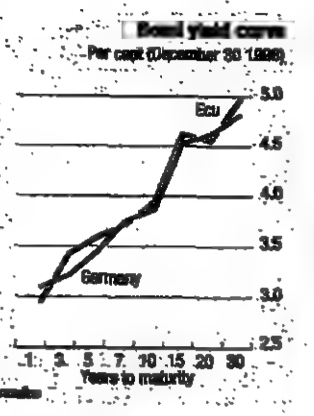
Carlsberg, one of Europe's biggest brewers was a leading casualty, losing Ecu 9 to Ecu 49.31. British American Tobacco slipped Ecu 5 to Ecu 7.52.

The telecoms sector was also weak, slipping 0.78, on speculation over cuts in European tariffs. This caused Deutsche Telecom to continue its losing streak, down Ecu 5 to Ecu 28.01

FTSE Ebloc 100



Bond yield curve



Source: FTSE International, Interactive Data/FT Information

FTSE Actuaries Share Indices — European series

Dec 30

National & Regional Markets	Ecu Index	Day's %	Change points	Yield gross %	xd adj ytd	Total rtn (Ecu)
FTSE Eurotop 300	1182.74	-0.74	-8.88	2.30	25.51	1217.85
FTSE Eurotop 100	2723.87	-0.92	-25.21	2.25	40.15	976.38
FTSE Ebloc 100	998.29	-0.23	-2.35	2.08	15.05	1013.38
FTSE EuroMid	1140.28	+0.50	+5.62	2.92	2.11	1181.63
FTSE EuroMid Ebloc	1215.72	+1.08	+13.02	2.20	0.59	1241.45
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

FTSE Eurotop 300 Regions; FTSE Eurotop Industry Sectors: [illegible]

THREE MONTH EURO FUTURES (LIFFE); THREE MONTH EURO OPTIONS (LIFFE); FTSE EUROTOP 100 INDEX FUTURES (LIFFE); EURO STYLE FTSE EUROTOP 100 INDEX OPTION (AEX): [illegible]

OTHER INDICES

[illegible]

FTSE EUROTOP 300

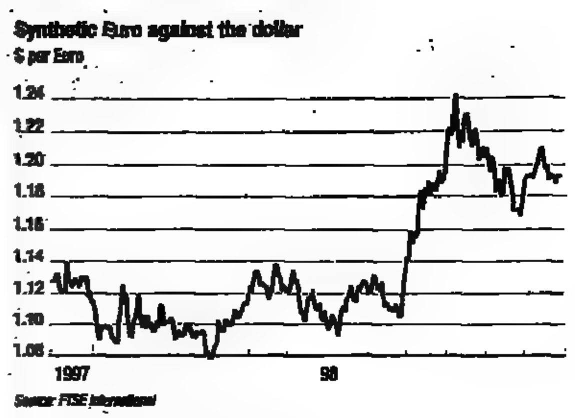
[illegible]

CURRENCIES & MONEY

FT SYNTHETIC EURO RATES

[illegible]

Synthetic Euro against the dollar



Source: FTSE International

EUROZONE CURRENCY CONVERGENCE

[illegible]

BONDS

INTEREST RATE SWAPS

[illegible]

EUROZONE CORPORATE BONDS

[illegible]

GOVERNMENT BOND SPREADS vs ECU

[illegible]

EUROZONE CREDIT SPREADS vs ECU

[illegible]

FINANCIAL SERVICES US INSURER COMPLETES PURCHASE OF SUNAMERICA

AIG joins retirement boom

By Richard Waters in New York

The sharp decline in the US savings rate and the risk that the bull market will soon run out of steam have done nothing to dent the prospects for a retirement savings boom that will soon be felt around the world, Maurice "Hank" Greenberg, chairman of American International Group, said yesterday.

Mr Greenberg was speaking as the US insurer put the final touches to its $18.5bn acquisition of SunAmerica, an insurance company which has soared to prominence on the back of the investment boom of the 1990s. The merger, agreed in August, is set for completion tomorrow.

The purchase marks a big shift for AIG, which has consistently ranked among the best-performing property/casualty and life insurers but which has not had a big stake in the long-term savings market.

However, the timing of the acquisition has prompted caution from some analysts. SunAmerica's rapid growth has been based largely on its success in the market for variable annuities, investment-linked insurance products which have become highly popular during the bull market.

These savings vehicles will remain popular, even if the stock market falls, Mr Greenberg said.

He also predicted that the need to save for retirement would remain a powerful concern for the US Baby Boom generation, despite the fact that the US personal savings rate has just turned negative for the first time since the Depression.

"I don't think the level of the stock market, or the fact that savings appear to be declining, is indicative of the future of the retirement savings market," he said.

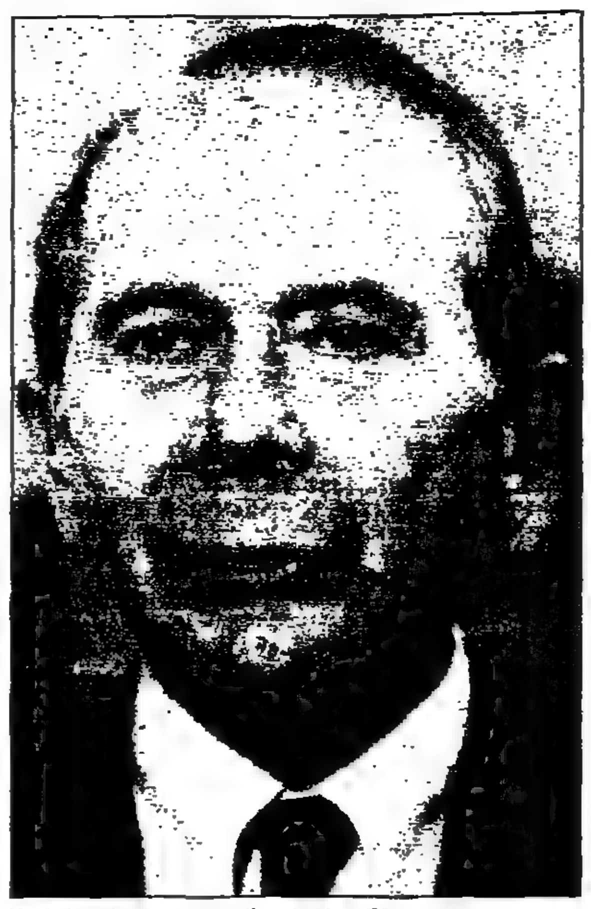
The aging populations of the developed world, and the prospect that social security benefits would have to be scaled back, ensured that this would remain a growth market, Mr Greenberg added. "People are not stupid – they want to provide for their own retirement. They don't want to rely on a hand-out in some government soup kitchen."

'People are not stupid – they want to provide for their own retirement. They don't want to rely on a hand-out in some government soup kitchen'

The purchase of SunAmerica also marks one of the first large-scale efforts at cross-selling in the financial services industry, as AIG tries to sell SunAmerica's investment products through its international network. A similar motivation lay behind the merger of Citicorp and Travelers to form Citigroup earlier this year.

Mr Greenberg said SunAmerica's products would fit easily into AIG's existing distribution channels, while SunAmerica's own sales force would be able to substitute AIG policies for other companies' insurance products that they already sell. He added, though: "You should be cautious about anything that is unproven."

A sharp fall in AIG's share price during the financial market upheaval of early autumn cut the value of the all-stock transaction to as little as $12.5bn in October, compared with $16.5bn on the day it was announced in August. AIG's shares have since climbed back close to their early-summer record, however, lifting the current value of the deal to $18.5bn.



Hank Greenberg: urges caution about anything unproven

NEWS DIGEST

ASSET MANAGEMENT

HypoVereinsbank lifts stake in Foreign & Colonial

HypoVereinsbank, Germany second biggest bank, yesterday announced it had increased its stake in Foreign & Colonial, the UK investment fund manager, to 90 per cent. The move underscores HypoVereinsbank's goal of boosting its international asset management fund activities. The German bank paid DM140m ($83.7m) for a 25 per cent stake in Foreign & Colonial. The deal increases the volume of assets under management by the HypoVereinsbank group by DM20bn to DM200bn. The acquisition will be financed by the issue of new HypoVereinsbank shares.

The involvement of the German bank in Foreign & Colonial dates back to 1989 when Hypo-Bank bought a 50 per cent stake in the UK company. In 1996 it increased its stake to 65 per cent.

In recent years several of Germany's big financial institutions have concentrated on expanding their international asset management activities in the belief that the business had considerable growth potential compared with their traditional lending and deposit businesses. Demand from companies for better performance of their in-house retirement and other asset portfolios has driven the growth in the business, as has the increased interest from private individuals in equity markets.

Frederick Stüdemann, Bonn

CHINA

Sitico meets debt obligations

Shanghai International Trust and Investment Corporation (Sitico), one of the best-known companies in China's troubled trust and investment industry, said yesterday it had struggled to find foreign funds to repay loans in recent months, but had managed to meet its maturing debt obligations.

China closed one of the country's leading trust and investment companies – Guangdong International Trust and Investment Corporation (Gitic) – for failing to pay its debts in October, prompting foreign banks to call in loans and halt new lending to most of the other 200 provincial and municipal trust companies, known as the Itics.

However, Sitico officials said the company had repaid in full a five-year $70m bond issued in Singapore, which fell due yesterday. A number of China's Itics defaulted on foreign loans as they faced a severe liquidity squeeze in the wake of Gitic's closure. Gitic's creditors have had nearly three months to register their outstanding debts and are expecting an indication of how much they are likely to be repaid after the closure of the notification period next week.

Zhou Youdao, Sitico chairman, said the company has over $200m in medium-and long-term foreign debt and more than $30m in short-term foreign debt.

James Harding, Shanghai

Continental targets sales of DM20bn

By Tony Barber in Frankfurt

Continental, the German tyre and car parts manufacturer, yesterday set itself the ambitious target of raising group sales by more than 50 per cent in the next three years to DM20bn ($12bn) in 2001.

The Hanover-based company, which is the world's fourth largest tyre maker but is moving increasingly into more specialised, high-technology areas such as brake and chassis systems, said it expected its net profit for 1998 to be significantly higher than the DM322m achieved last year. That result was itself 67 per cent higher than the profit earned in 1996.

Continental did not give a specific prediction for its 1998 net profit, but said its sales this year had risen by 15.8 per cent to about DM13bn. It said the group's sales should reach about DM20bn in 2001.

Continental underlined its aim of expanding into high-technology businesses last September when it acquired the automotive brake and chassis division of ITT Industries of White Plains, New York, for about $1.9bn.

Heavy selling lifts Japan yields

GOVERNMENT BONDS

By Khozem Merchant in London and John Labate in New York

Yields on Japanese government bonds climbed above 2 per cent for the first time yesterday since September 1997 as investors continued to sell holdings in a market undermined by fears of over-supply next year.

European markets, meanwhile, edged up further in the last day of trading before the introduction of the euro, while the US Treasury market staged a late rally after a better-than-expected reception for an auction of short-term notes.

JGB prices sagged on the last trading session of 1998 with the yield on benchmark 10-year bonds ending at 2.01 per cent in Tokyo. Several city banks were reported to be heavy sellers once again as worries over supply continued.

The supply of new JGB issues in fiscal 1999 will be double that of 1998. But the Trust Fund Bureau, a public agency which is a significant investor in government debt, has indicated it may not buy the new issues.

US Treasuries continued to climb in early New York trading. By early afternoon the 30-year bond had risen ⅛ to 102⅝ to yield 5.088 per cent. The 10-year note was ¼ higher at 100⅝, yielding 4.65 per cent, and the two-year note was ⅛ higher at 100¼, yielding 4.559 per cent.

"In the two-year note auction [on Tuesday] dealers had bid aggressively and that gave the market a nice tone that carried over into today," said Kevin Logan at Dresdner Kleinwort Benson. He said Treasury prices would remain in a narrow range in the short term now that the Federal Reserve has moved to a neutral stance on interest rate policy.

European market activity slowed to a trickle, exaggerating price movements, but the tone was upbeat ahead of conversion weekend. The March German bund futures contract was trading late yesterday at 115.78, up 0.13. The March UK gilt futures contract settled 0.41 higher at 119.08 in a full day's trading on Liffe.

Attention was fixed on the Bank of England's monetary policy committee meeting next week and analysts expect a 25-basis point cut in interest rates. The MPC's hand may be forced by forecasts of weak data in the services sector, while retail sales figures are expected to show modest retail spending in the Christmas sales.

The Confederation of British Industry's distributive-trades survey published next week is also expected to highlight weakness in manufacturing.

WORLD BOND PRICES

BENCHMARK GOVERNMENT BONDS

Dec 30	Red Date	Coupon	Bid Price	Bid Yield	Day chg yield	Wk chg yield	Month chg yld	Year chg yld
Australia	01/01	8.750	107.7718	4.88	–	+0.15	+0.13	–0.84
	08/08	6.750	127.9880	5.04	–0.04	+0.10	–	–0.89
Austria	07/00	8.875	103.5300	3.25	–0.03	–0.08	–0.19	–1.10
	01/08	5.000	107.1800	4.03	–0.03	–0.06	–0.16	–1.40
Belgium	01/00	4.000	100.8800	3.15	–0.01	–0.04	–0.17	–1.29
	03/08	5.750	112.4500	4.05	–0.02	–0.05	–0.17	–1.42
Canada*	12/00	5.000	100.4900	4.72	–0.06	–0.10	–0.09	–0.43
	06/08	6.000	108.1600	4.91	–0.04	–0.09	–0.09	–0.75
Denmark	11/00	9.000	108.0600	3.63	+0.01	+0.01	–0.09	–0.69
	11/07	7.000	120.1500	4.22	–0.02	–0.04	–0.19	–1.44
Finland	01/99	11.000	100.1998	2.71	+0.06	+0.02	–0.16	–1.35
	04/08	6.000	115.1700	4.01	–0.03	–0.06	–0.21	–1.38
France	07/00	4.000	101.2000	3.16	+0.01	–0.01	–0.16	–1.11
	10/05	7.750	124.8100	3.87	–0.01	–0.01	–0.15	–1.48
	10/08	8.500	136.9700	3.89	–0.01	–0.03	–0.16	–1.47
	04/29	5.500	111.9500	4.75	–0.01	–0.03	–0.13	–1.16
Germany	09/00	4.000	101.1700	3.15	–0.05	–0.04	–0.15	–0.98
	10/05	6.500	116.4200	3.71	–0.01	–0.02	–0.13	–1.46
	07/08	4.750	106.8700	3.87	–0.01	–0.03	–0.09	–1.30
	01/28	5.625	112.6100	4.81	–0.01	–0.03	–0.02	–1.15
Ireland	10/01	6.500	108.5000	3.27	+0.02	–	–0.22	–1.69
	08/08	6.000	115.5800	4.02	–0.04	–0.04	–0.19	–1.52
Italy	04/01	4.500	102.6400	3.27	+0.07	+0.03	–0.19	–1.68
	07/03	4.500	104.4000	3.44	+0.04	+0.02	–0.22	–1.71
	08/08	5.000	107.8000	3.98	–	+0.03	–0.18	–1.82
	11/27	6.500	124.5500	4.68	–0.01	–0.03	–0.19	–1.17
Japan	12/00	6.900	111.7500	0.62	+0.03	+0.12	+0.60	+0.15
	12/03	4.100	112.2840	1.52	+0.10	+0.21	+0.78	+0.22
	06/08	1.800	98.3080	2.00	+0.13	+0.21	+0.81	+0.28
	03/18	2.700	99.0230	2.77	+0.14	+0.25	+0.93	+0.22
Netherlands	05/00	9.000	107.5400	3.21	+0.06	–0.02	–0.14	–1.03
	07/08	5.250	110.1400	3.95	–0.04	–0.05	–0.12	–1.26
New Zealand	02/01	8.000	105.3643	5.23	–0.08	+0.08	+0.31	–2.37
	07/09	7.000	111.7882	5.51	–0.07	+0.03	–0.09	–1.49
Norway	01/99	9.000	100.0400	7.76	–0.02	–0.04	–0.17	+3.31
	01/07	6.750	109.0000	5.34	–0.03	–0.08	+0.08	–0.15
Portugal	03/00	5.375	102.6300	3.12	–0.04	–0.07	–0.26	–1.80
	06/08	5.375	110.0800	4.07	–0.01	–0.07	–0.21	–1.57
Spain	04/00	6.750	104.4600	3.10	+0.08	–	–0.22	–1.44
	01/08	6.000	115.0300	3.98	+0.02	–0.08	–0.27	–1.63
Sweden	05/00	10.250	108.5272	3.54	–0.05	–0.04	–0.10	–1.56
	05/08	6.500	117.8492	4.15	–0.08	–0.08	–0.19	–1.83
Switzerland	06/00	4.500	104.2300	1.46	+0.01	–0.05	–0.02	–0.45
	01/08	4.250	115.2000	2.36	–0.01	–0.05	–0.02	–0.96
UK	11/01	7.000	106.0200	4.71	–0.05	–0.04	–0.33	–2.10
	12/03	6.500	109.5100	4.34	–0.04	–0.05	–0.37	–2.12
	10/08	9.000	136.6200	4.36	–0.04	–0.06	–0.32	–1.97
	12/28	6.000	129.1500	4.27	–0.01	–0.03	–0.13	–2.04
US	03/00	4.500	99.7633	4.64	–0.08	–0.10	+0.05	–1.09
	08/03	5.250	102.5416	4.63	–0.08	–0.08	+0.07	–1.18
	05/08	5.625	108.5414	4.75	–0.13	–0.13	–0.02	–1.04
	08/28	5.500	104.6568	5.19	–0.02	–0.03	+0.07	–0.83
ECU	07/00	4.000	101.1800	3.18	–0.02	–	–0.16	–1.47
	04/08	5.250	110.5000	3.88	–0.03	–0.04	–0.18	–1.59

London closing. * New York mid day. Source: Interactive Data/FT Information
Yields: Local market standard/Annualised yield basis. Yields shown for Italy exclude withholding tax at 12.5 per cent payable by nonresidents.

10 YEAR BENCHMARK SPREADS

Dec 30	Bid Yield	Spread vs Bunds	Spread vs T-Bonds		Bid Yield	Spread vs Bunds	Spread vs T-Bonds
Australia	5.05	+1.19	+0.39	New Zealand	5.52	+1.66	+0.86
Austria	3.97	+0.11	–0.69	Norway	5.32	+1.46	+0.66
Belgium	4.11	+0.25	–0.55	Portugal	4.08	+0.22	–0.58
Canada	4.91	+1.05	+0.25	Spain	4.03	+0.17	–0.63
Denmark	4.19	+0.33	–0.47	Sweden	4.17	+0.31	–0.49
Finland	4.04	+0.18	–0.62	Switzerland	2.45	–1.41	–2.21
France	3.88	+0.02	–0.78	UK	4.36	+0.50	–0.30
Germany	3.86	–	–0.80	US	4.66	+0.80	–
Ireland	4.04	+0.18	–0.62	ECU	3.94	+0.08	–0.72
Italy	4.10	+0.24	–0.56				
Japan	2.01	–1.85	–2.65				
Netherlands	3.94	+0.08	–0.72				

Source: Interactive Data/FT Information. London closing. * New York closing. Annualised yield basis.

EMERGING MARKET BONDS

Dec 30	Red date	Coupon	S & P Rating	Bid price	Bid yield	Day's chge yld	Mth's chge yld	Sprd vs US
EUROPE								
Croatia	02/02	7.000	BBB–	94.7104	8.98	+0.10	–1.38	+4.41
Poland	07/04	7.125	BBB–	104.5100	6.12	+0.02	–0.16	+1.55
Russia	06/07	10.000	n/a	23.5887	46.77	–0.03	+6.62	+42.13
LATIN AMERICA								
Argentina	09/27	9.750	BB	88.0184	11.14	+0.10	+0.31	+6.07
Brazil	05/27	10.125	BB–	[illegible].7444	15.28	+0.10	+1.[illegible]	+10.21
Mexico	05/26	11.500	BB	104.5411	10.97	+0.10	+0.32	+5.92
ASIA								
China	07/06	7.750	BBB+	102.8071	7.24	+0.10	+0.32	+2.62
Philippines	10/16	8.750	BB+	93.4372	9.52	+0.10	+0.44	+4.69
Thailand	04/07	7.750	BBB–	96.2721	8.39	+0.10	–0.20	+3.74
AFRICA/MIDDLE EAST								
Lebanon	07/00	9.125	BB–	102.9775	7.00	+0.10	+0.07	+2.44
South Africa	10/06	8.375	BB+	95.5427	9.19	+0.10	–1.61	+4.57
Turkey	09/07	10.000	B	86.0314	12.72	+0.10	+1.54	+8.06
BRADY BONDS								
Argentina	03/23	5.750	BB	71.5700	8.89	+0.02	+0.28	+3.91
Brazil	04/14	5.000	BB–	58.7500	14.10	+0.04	+1.71	+9.40
Mexico	12/19	6.250	BB	77.1021	8.63	+0.03	+0.04	[illegible]
Venezuela	03/20	6.750	B+	68.5000	10.47	–0.16	–0.80	+5.55

London closing. Prices in US$. Standard & Poor's ratings. Source: Interactive Data/FT Information.

BOND FUTURES AND OPTIONS

France

NOTIONAL FRENCH BOND FUTURES (MATIF) FFr500,000

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Mar	111.36	111.50	+0.19	111.65	111.26	3,912	94,763

LONG TERM FRENCH BOND OPTIONS (MATIF)

Strike Price	CALLS Feb	Mar	-	PUTS Feb	Mar	-
109	2.43	2.62	-	0.13	0.32	-
110	1.60	1.87	-	0.29	0.57	-
111	0.93	1.28	-	0.62	0.95	-
112	0.47	0.78	-	1.15	1.[illegible]	-

Est. vol. total, Calls 103 Puts 102. Previous day's open int., Calls n/a Puts n/a

Germany

NOTIONAL GERMAN BUND FUTURES (DTB) DM250,000 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Mar	115.72	115.78	+0.12	115.93	115.63	29,032	273,581

BUND FUTURES OPTIONS (LIFFE) DM250,000 points of 100%

Strike Price	CALLS Jan	Feb	Mar	PUTS Jan	Feb	Mar
11550	0.37	0.78	1.05	0	0.47	0.68
11600	0	0.52	0.79	0.13	0.65	0.92
11650	0	0.32	0.56	0.63	0.95	1.21

Est. vol. total, Calls 0 Puts 0. Previous day's open int., Calls 0 Puts 0

NOTIONAL GERMAN BUND (BOBL) FUTURES (DTB) DM250,000 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Mar	108.68	108.72	+0.07	108.75	108.68	7,985	187,355

NOTIONAL LPB SWAP FUTURES (LIFFE)* 5yr 4.0% DM250,000 points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Mar	-	101.29	+0.14	-	-	0	885

NOTIONAL LPB SWAP FUTURES (LIFFE)* 10yr 4.5% DM250,000 points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Mar	-	101.36	+0.46	-	-	0	580

Also traded on APT. All Open interest figs. are for previous day.

Italy

NOTIONAL ITALIAN GOVT. BOND (BTP) FUTURES (LIFFE)* Lira 200m 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Mar	113.70	113.57	-	113.79	113.53	2006	35330

ITALIAN GOVT. BOND (BTP) FUTURES OPTIONS (LIFFE) Lira200m 100ths of 100%

Strike Price	CALLS Feb	Mar	PUTS Feb	Mar
11350	0.57	0.79	0.36	0.60
11400	0.33	0.55	0.64	0.86
11450	0.17	0.36	0.98	1.17

Est. vol. total, Calls 0 Puts 0. Previous day's open int., Calls 0 Puts 5[illegible]

Spain

NOTIONAL SPANISH BOND FUTURES (MEFF)

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Mar	116.59	116.70	+0.15	116.73	116.52	7,235	19,760

UK

NOTIONAL 5 YEAR GILT FUTURES (LIFFE) £100,000 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Mar	-	110.00	+0.55	-	-	0	76

NOTIONAL UK GILT FUTURES (LIFFE)* £100,000 100ths of 100%

	Open	Close	Change	High	Low	Est. vol	Open int.
Mar	118.71	119.08	+0.41	119.12	118.68	3400	100150
Jun	-	119.08	+0.41	-	-	0	0

* LIFFE futures also traded on APT. All Open interest figs. are for previous day

LONG GILT FUTURES OPTIONS (LIFFE) £100,000 100ths of 100%

Strike Price	CALLS Jan	Feb	Mar	PUTS Jan	Feb	Mar
11800	0.28	1.05	1.[illegible]	0	0.80	1.13
11850	0	[illegible]	1.12	0.24	1.04	1.38
11900	0	0.60	0.95	0.74	1.34	1.69

Est. vol. total, Calls 453 Puts 125. Previous day's open int., Calls 7135 Puts 7344

US

US TREASURY BOND FUTURES (CBT) $100,000 32nds of 100%

	Open	Latest	Change	High	Low	Est. vol.	Open int.
Mar	127-24	127-27	+0-05	128-01	127-18	99,285	580,038
Jun	127-05	127-12	+0-05	127-13	127-05	236	13,181
Sep	-	126-25	–	–	–	4	5,285

Japan

NOTIONAL LONG TERM JAPANESE GOVT. BOND FUTURES (LIFFE) Y100m 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Mar	128.08	128.21	-	128.40	127.80	615	n/a
Jun	-	127.20	-	-	-	0	n/a

Ecu

ECU BOND FUTURES (MATIF) ECU100,000

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Mar	–	109.62	–0.28	–	–	0	259

US CORPORATE BONDS

Dec 30	Red date	Coupon	S & P Rating	Bid price	Bid yield	Day's chge yld	Mth's chge yld	Sprd v Govts
UTILITIES								
Pac Bell	07/02	7.25	AA–	105.5587	5.35	–0.06	–0.01	+0.77
NY Tel	08/25	7.00	A+	102.1159	6.82	–0.04	+0.06	+1.70
GTE	05/08	8.00	BBB	114.9893	5.89	–0.07	–0.14	+1.19
FINANCIALS								
GECC	05/07	8.75	AAA	120.9820	5.58	–0.07	–0.08	+0.85
Banc One	08/02	7.25	A	104.9575	5.89	–0.06	+0.12	+1.10
CNA Fin	01/18	6.95	A–	97.4029	7.20	–0.05	–0.31	+2.08
INDUSTRIALS								
WMX Tech	04/99	6.25	BBB+	100.0111	6.10	+0.03	+0.16	+1.70
Wal Mart	05/02	6.75	AA	105.1301	5.08	–0.05	+0.01	+0.47
Dayton Hud	08/21	9.70	A–	135.2800	6.56	–0.05	–0.05	+1.53
AGENCIES								
FHLMC	04/07	7.14	N/A	112.1192	5.31	–0.12	–0.03	+0.61
SLMA	03/00	7.50	N/A	102.7662	5.08	–0.08	–0.01	+0.39
FNMA	02/18	8.95	N/A	137.2320	5.71	–0.06	+0.15	+0.59
FFCB	09/06	8.95	N/A	[illegible]	5.25	–0.12	–0.03	+0.55
HIGH YIELD								
Stone Cont	02/01	[illegible]	B	101.0000	0.00	–	–	–
AK Stl	12/01	9.13	BB–	104.0000	0.00	–	–	–
Pacalta	06/04	10.75	B–	85.1250	0.00	–	–	–

NY closing. Standard & Poor's ratings. Yields: semi-annual basis. Source: Interactive Data/FT Information.

US INTEREST RATES

Latest

		Treasury Bills and Bond Yields			
Prime rate	7¾	One month	-	Two year	4.58
Broker loan rate	6⅝	Two month	-	Three year	4.57
Fed.funds	4⅞	Three month	4.65	Five year	4.55
Fed.funds at intervention	-	Six month	4.60	10-year	4.66
		One year	4.56	30-year	5.09

INTERNATIONAL BONDS

Dec 30	Red date	Coupon	S & P Rating	Bid price	Bid yld	Day's chge yld	Mth's chge yld	Spread v Govts
EURO DM								
EIB	02/07	5.750	AAA	111.3000	4.08	–0.02	–0.11	+0.19
Spain	01/07	5.750	AA	111.3465	4.08	–0.03	–0.16	+0.17
Philip Morris	03/04	5.375	A	104.0000	4.30	+0.09	–0.06	+0.71
Finland FRN	09/02	3.406	AA	100.4156	[illegible]	–0.01	–0.09	–0.58
EURO FFR								
Austria	01/04	5.500	AAA	108.7100	3.58	–0.01	–0.21	+0.12
Abbey Nat	02/04	6.000	AA	110.3400	3.74	+0.02	–0.16	+0.28
Cred Foncier	02/04	9.125	A	123.6857	3.93	–0.04	–0.21	+0.47
SCF FRN	12/01	3.828	AA–	100.0559	3.12	–0.05	–0.21	–0.11
EURO LIRA								
EIB	02/07	7.000	AAA	119.7300	4.09	–0.05	–0.17	+0.12
Abbey Nat	02/02	[illegible]	AA	109.2100	3.93	+0.03	–0.11	+0.26
Walt Disney	06/00	8.625	A	[illegible]	3.68	–	–0.18	+0.44
EIB FRN	03/01	3.030	AAA	99.6267	3.25	+0.04	–0.02	–0.03
EURO £								
EIB	12/07	7.625	AAA	117.3464	5.15	–0.05	–0.17	+0.77
Dresdner Bk	12/07	7.750	AA–	111.3043	6.07	–0.05	–0.38	+1.69
British Gas	03/00	7.625	A+	102.1193	5.77	–0.03	–0.42	+0.85
Abbey Nat FRN	02/02	7.136	AA	100.1245	4.71	–0.02	–0.10	+0.25
EURO $								
EIB	04/07	7.250	AAA	113.0036	5.27	–0.06	–0.02	+0.63
ABN Amro	08/07	7.125	AA–	105.6280	6.24	–0.11	–0.13	+1.60
Quebec	01/07	7.000	A+	107.7759	5.78	–0.12	–	+1.14
Citicorp FRN	02/04	5.312	A+	95.0069	6.46	–0.06	–0.04	+1.89
EURO C$								
Bayer L-Bk	08/04	9.300	AAA	119.8801	5.30	–0.13	–0.10	+0.15
Toronto	05/04	[illegible]	AA+	[illegible]	5.38	–0.13	+0.04	+0.23
Bell Canada	07/99	10.625	A+	102.6838	5.17	–0.13	–0.11	+0.96
Derbsing D FRN	09/02	5.875	AA+	101.6305	[illegible]	–0.13	–0.11	+0.29
EURO YEN								
World Bank	03/02	5.250	AAA	113.6618	0.92	+0.04	+0.47	–0.41
Spain	03/02	5.750	AA	115.0051	0.99	+0.03	+0.48	–0.34
Cred Foncier	08/02	4.750	A	110.9920	1.59	+0.02	+0.57	+0.28
Italy FRN	07/99	0.461	AA	100.0268	0.48	–	+0.29	–0.12

London closing. Standard & Poor's ratings. Yields: Local market standard/Annualised basis. Source: Interactive Data/FT Information

UK BONDS

FTSE Actuaries Government Securities

Price Indices UK Gilts	Wed Dec 30	Day's chge %	Accrued interest	xd adj ytd	Total Return	Duration Years	Duration Yield	% Weight
1 Up to 5 years (18)	122.30	0.19	2.09	10.16	1198.88	2.40	4.65	34.48
2 5-10 years (11)	172.71	0.37	1.97	11.35	1342.42	5.04	4.42	28.08
3 10-15 years (7)	187.86	0.47	2.03	11.80	1498.53	8.77	4.42	13.44
4 5-15 years (18)	177.11	0.40	1.98	11.47	1378.43	6.86	4.42	42.52
5 Over 15 years (6)	234.88	0.58	1.66	13.27	1595.25	11.88	4.40	22.22
6 Irredeemables (4)	338.30	0.99	2.30	14.89	1913.29	23.45	4.55	0.78
7 All stocks (46)	157.88	0.37	2.06	11.53	1359.86	6.97	4.44	100.00

UK Indices

Index-linked	Wed Dec 30	Day's chge %	Accrued interest	xd adj ytd	Total Return	% Weight
1 Up to 5 years (2)	227.55	0.09	1.11	5.92	1185.12	15.30
2 Over 5 years (9)	258.84	0.20	2.17	5.96	1400.76	84.70
3 5-15 years (5)	242.35	0.19	1.87	5.34	1306.77	43.36
4 Over 15 years (4)	273.51	0.22	2.46	6.41	1487.00	41.34
5 All stocks (11)	252.86	0.18	1.98	5.93	1370.86	100.00

Yield Indices	Dec 30	Dec 29	Yr ago	Yield Indices	Dec 30	Dec 29	Yr ago
5 yrs	4.47	4.52	6.57	Irred †	4.56	4.59	6.42
10 yrs	4.40	4.45	6.38	Med 15 yrs	4.43	4.47	6.33
15 yrs	4.41	4.46	6.33	High 15 yrs	4.55	4.59	6.42
20 yrs	4.42	4.46	6.31				

Coupon Bands: Medium: 8%-10¾%; High: 11% and over. † Flat yield. ytd Year to date.

Real yield	Inflation 0% Dec 30	Dur yrs	Dec 29	Yr ago	Inflation 5% Dec 30	Dur yrs	Dec 29	Yr ago
Up to 5 yrs	2.82	3.43	2.83	3.81	2.05	3.45	2.04	3.03
Over 5 yrs	2.74	13.72	2.15	3.23	1.94	13.23	1.95	3.01
5-15 yrs	2.18	9.85	2.20	3.33	1.91	9.90	1.92	3.01
Over 15 yrs	2.11	16.72	2.12	3.18	1.95	16.81	1.96	3.01
All Stocks	2.17	11.68	2.18	3.24	1.94	11.70	1.95	3.01

FT Fixed Interest Indices

	Dec 30	Dec 29	Dec 24	Dec 23	Dec 22	Yr ago	High*	Low*
Govt. Secs. (UK)	115.98	115.53	115.39	115.60	114.95	101.93	115.62	93.31
Fixed Interest	157.19	156.47	156.41	156.47	156.14	135.21	157.10	118.32

© FTSE International Ltd 1998. All rights reserved. * for 1998. Government Securities high since compilation: 127.40 (9/1/35), low 49.18 (3/1/75). Fixed Interest high since compilation: 151.02 (9/14/98), low 50.53 (3/1/75). Basis 100: Government Securities 15/10/26 and Fixed Interest 1928. SE activity indices rebased 1974.

UK GILTS PRICES

	Notes	Yield Int	Yield Red	Price £	+or–	52 week High	52 week Low
Shorts* (Lives up to Five Years)							
Treas 9½pc 1999		9.40	6.06	101.0365	–.0736	102.63	101.13
Treas Flfg Rate 1999		–	–	100.0305	–.0008	100.27	100.02
Exch 12¼pc 1999		12.07	5.82	101.4844	–.0389	105.31	101.49
Treas 10½pc 1999		10.31	5.46	101.8813	–.0043	104.98	101.89
Treas 6pc 1999		5.98	5.27	100.3793	+.0218	100.38	98.64
Conv 10¼pc 1999		9.93	5.24	103.3212	+.0067	105.46	103.52
[illegible]							

	Notes	Yield Int	Yield Red	Price £	+or–	52 week High	52 week Low
Conv 9½pc 2005		7.47	4.51	127.1522	+.3008	127.15	117.55
Exch 10½pc 2005		7.82	4.53	134.2872	+.3008	134.30	124.23
Treas 12½pc 2003-5		9.27	4.48	134.8780	+.2414	134.90	127.40
Treas 8½pc 2005		6.85	4.43	124.1045	+.3232	124.10	113.10
Conv 9½pc 2006		7.23	4.48	134.8135	+.3844	134.81	122.59
Treas 7¾pc 2006		6.40	4.38	121.0285	+.3475	121.03	108.03
Treas 8pc 2002-6		7.18	4.78	111.2447	+.1909	111.24	104.86
Treas 7½pc 2006		6.24	4.47	120.1408	+.3483	120.14	107.77
[illegible]							

Index-Linked (b)	Notes	Yield (1)	Yield (2)	Price £	+or–	52 week High	52 week Low
2½pc '99		0.09	1.30	197.8042	+.0699	198.18	188.30
2½pc '01	(78.3)	2.17	2.58	206.0222	+.0698	206.40	194.72
2½pc '03	(78.8)	1.95	2.21	207.3183	+.1553	207.82	192.34
4⅝pc '04	(135.6)	1.88	2.09	133.9350	+.0982	133.99	124.39
2pc '06	(69.5)	1.78	1.94	233.7120	+.2796	233.71	208.59
2½pc '09	(78.8)	1.66	1.98	215.1705	+.3048	215.17	187.56
[illegible]							

Other Fixed Interest

[illegible]

هكذا من الأصل

FT MANAGED FUNDS SERVICE

● FT Cityline Unit Trust Prices are available over the telephone. Call the FT Cityline Help Desk on (+44 171) 873 4378 for more details.

OFFSHORE AND OVERSEAS

BERMUDA (FSA RECOGNISED)

Fidelity Currency Funds Ltd

MFS Meridian Funds

Mercury International Advisors

Montgomery Emerging Markets Fund Ltd

BERMUDA (REGULATED)(**)

CAYMAN ISLANDS (REGULATED)(**)

GUERNSEY (REGULATED)(**)

GUERNSEY (FSA RECOGNISED)

Rothschild Asset Management - Contd.

Royal Bk of Canada Bil Fd Mgrs Ltd

IRELAND (FSA RECOGNISED)

AIB Fund Management Ltd

ABN AMRO Global Liquidity Funds Plc

Aberdeen Prolific International Fund Plc

Global Asset Management (GAM)

Asian Growth Fund Plc

Asset Korea Fund

Asset Universal Ltd

Atlantis Korean Smaller Companies Fund

BAS-EX Management SA

BT&T Asset Management (Ireland) Ltd

KDM Secured Equity Fund II Plc

Jupiter World Funds - Contd.

John Hancock Funds Plc

Hansol Korea Venture Fund

Hypovereins International Fund Plc (a)

Scottish Mutual Intl Fund Managers Ltd

Seltern Investment Mngt (Ireland) Ltd

Short-Term Investments Co (Global Series) Plc

Bank of Cyprus Group

Baring Intl Fd Mngrs (Ireland) Ltd

Lazard Investment Funds Ltd

Lazard Investment Funds Ltd - Contd.

Lehman Brothers/GLB Partners Asset Mngmt

IRELAND (REGULATED)(**)

ISLE OF MAN (FSA RECOGNISED)

ISLE OF MAN (REGULATED)(**)

JERSEY (FSA RECOGNISED)

Offshore Funds and Insurances

FT MANAGED FUNDS SERVICE

● FT Cityline Unit Trust Prices are available over the telephone. Call the FT Cityline Help Desk on (+44 171) 873 4378 for more details.

LUXEMBOURG (FSA RECOGNISED)

JERSEY (REGULATED)(**)

LUXEMBOURG (REGULATED)(**)

OFFSHORE INSURANCES

FT MANAGED FUNDS SERVICE

Offshore Insurances and Other Funds

● FT Cityline Unit Trust Prices are available over the telephone. Call the FT Cityline Help Desk on (+44 171) 873 4378 for more details.

OTHER OFFSHORE FUNDS

LONDON SHARE SERVICE

ALCOHOLIC BEVERAGES

	Notes	Price	+ or −	52 week high	52 week low	Volume '000s	Yld Gr's	P/E
Allied Domecq	♣♦	554½xd	−2	645	385	742	4.6	14.5
Bulmer (HP)		339	—	412½	291½	0.409	5.6	14.9
Burn Stewart		18½	—	42½	7	—	—	—
Diageo	♣♦	694	−21	*795	469½	1,944	2.9	20.7
Glenmorangie A	†	887½xd	—	925	685	—	2.6	18.7
B	†	[illegible]	—	[illegible]	[illegible]	–	1.7	44.8
Highland		[illegible]	—	325	225	3	4.4	12.2
5¼pc Cv Sb Bd		97¼	+¼	100½	88	–	6.1	–
Kirin Y		751¼	+8¼	751¼	418¼	–	0.8	70.3
Matthew Clark	♣	242	—	244	118	–	5.7	8.2
Merrydown		29½	−1½	89½	18½	–	–	♦
Seagram C$		[illegible]	+13	[illegible]	[illegible]	–	1.1	–

BANKS, RETAIL

BREWERIES, PUBS & REST

BUILDING MATS. & MERCHANTS

CHEMICALS

CONSTRUCTION

CONSTRUCTION - Continued

DISTRIBUTORS

DIVERSIFIED INDUSTRIALS

ELECTRICITY

ELECTRONIC & ELECTRICAL EQPT

ENGINEERING

ENGINEERING - Continued

GAS DISTRIBUTION

HEALTH CARE

ENGINEERING - Continued

HEALTH CARE - Continued

ENGINEERING, VEHICLES

HOUSEHOLD GOODS & TEXT

EXTRACTIVE INDUSTRIES

FOOD PRODUCERS

FOOD PRODUCERS - Continued

INSURANCE

INSURANCE - Continued

INVESTMENT TRUSTS

INVESTMENT TRUSTS - Continued

INV TRUSTS SPLIT CAPITAL

LONDON SHARE SERVICE

OTHER INVESTMENT TRUSTS

The following investment trusts are not eligible for inclusion in the FTSE Actuaries Share Indices.

[illegible]

INVESTMENT COMPANIES

[illegible]

LEISURE & HOTELS

[illegible]

LIFE ASSURANCE

[illegible]

MEDIA

[illegible]

MEDIA - Continued

[illegible]

OIL EXPLORATION & PRODUCTION

[illegible]

OIL, INTEGRATED

[illegible]

OTHER FINANCIAL

[illegible]

PAPER, PACKAGING & PRINTING

[illegible]

PHARMACEUTICALS

[illegible]

PROPERTY

[illegible]

PROPERTY - Continued

[illegible]

RETAILERS, FOOD

[illegible]

RETAILERS, GENERAL

[illegible]

SUPPORT SERVICES

[illegible]

SUPPORT SERVICES - Continued

[illegible]

TELECOMMUNICATIONS

[illegible]

TOBACCO

[illegible]

TRANSPORT

[illegible]

TRANSPORT - Continued

[illegible]

WATER

[illegible]

AMERICANS

[illegible]

CANADIANS

[illegible]

SOUTH AFRICANS

[illegible]

TRADED INDEX SECURITIES

[illegible]

AIM

Alternative Investment Market

[illegible]

AIM - Continued

[illegible]

GUIDE TO LONDON SHARE SERVICE

[illegible]

Abbreviations: , ex dividend; , ex scrip issue; , ex rights; , ex all; , ex capital distribution.

This service is available to companies whose shares are regularly traded in the United Kingdom for a fee of £1495 a year for each security shown, subject to the Editor's discretion.

♣ FT Free Annual Reports Club

You can obtain the current annual/interim report of any companies annotated with the ♣ . Ring 0181 770 0770 (open 24 hours including weekends) or Fax 0181 770 3822. Reports may also be ordered via the internet at http://www.icbinc.com. All reports will be sent the next working day, subject to availability.

FT Cityline

Up-to-the-second share prices are available by telephone from the FT Cityline service. See Monday's share price pages for details. Calls are charged at 50p per minute at all times.

An international service is available for callers outside the UK, annual subscription £250 stg. Please consult your financial adviser and verify financial pricing information obtained via FT Cityline before making any investment decision.

All access to and use of FT Cityline is subject to FT Cityline terms and conditions - your copy will be sent free on request.

Call 0171 873 4378 for more information on FT Cityline.

For Retail Price Index details call 0891 43 0805

The FT web site

London share prices are available throughout the trading day with a 20 minute delay from our web site, http://www.ft.com, which also has the closing share prices printed on these pages.

LONDON STOCK EXCHANGE

TRADING VOLUME

■ Major Stocks yesterday.

	Vol 000's	Closing price	Day's change
[illegible]	[illegible]	[illegible]	[illegible]
United Utilities	163	830	-7
Vodafone	1,100	976	-9
WPP	365	367½	-7½
Whitbread	314	793½	+2
Williams	227	341½	-8½
Woolwich	605	352	-4½
Zeneca	407	2617	-18

Based on trading volume for the FTSE 100 constituent companies and reserves yesterday until 12.30pm. † Indicates a FTSE 100 index riser. All trades are counted. Source: Estel, part of FT Information.

Equities finish 1998 on a subdued note

MARKET REPORT

By Steve Thompson, UK Stock Market Editor

Lingering hopes that the London equity market's benchmark index, the FTSE 100, might just have enough momentum to finish the year *above the 6,000 mark* were dashed yesterday.

The final trading session of the year, which ended at 12.30pm, saw leading stocks come under light fire in exceptionally thin conditions *and fall away sharply only* to stage a startling rally during the last 15 minutes.

That rally saw the index recover dramatically from a 132.5 decline to finish a net *56.9 lower at 5,882.6, as a* burst of basket trades, linked to the FTSE future, and what dealers described as end-year "window dressing", produced a sea of blue across trading screens.

But, in common with trading over the past couple of sessions, the huge swings in stock prices, were not accompanied by any real volume. Turnover at the close was a miserly 188.1m shares, *the second lowest of the year* – the lowest daily total of the past 12 months was on Christmas eve when 108m shares changed hands.

The market's exceptional volatility *was attributed by* dealers to the thinness of bids and offers on the Sets trading system.

"The system depends on the institutions putting in commercial bids and offers, *and I'm afraid there was pre*cious little activity," said one marketmaker.

He said underlying sentiment in the market remained good and pointed to the solid performances of the market's junior indices as proof of that. "There was no pressure on the second and third-liners which are still traded via the market-making system," he said.

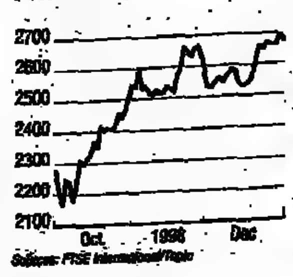
The FTSE 250 never looked in danger of falling into negative territory, eventually finishing 11.2 higher at 4,854.7, having touched a session high of 4,856.2. The FTSE SmallCap, meanwhile, *closed at the day's best, up* 9.2 at 2,070.9.

Over the year, the FTSE 100 rose 747.1 or 14.5 per cent, eclipsing all the other FTSE indices. The FTSE All-Share was up 262.92 or 10.9 per cent and the FTSE 250 678.1 or 1.4 per cent. The FTSE SmallCap was left trailing, finishing 242.35 or 10.4 per cent lower.

Dealers are now preparing *for action on* Monday which brings the launch of European monetary union and the possibility of a flood of new money coming into the UK market from continental investors. Some expect over*seas investors* to concentrate their European investments in the UK because of the uncertainties surrounding the launch of the euro.

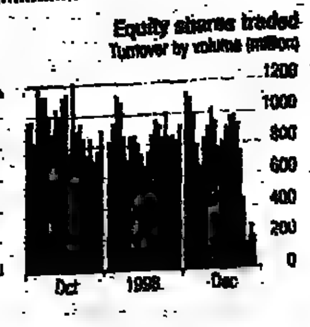
There is also the expectation that the new year will bring with it another burst of takeover/merger activity, one of the features of 1998.

FTSE All-Share Index



Source: FTSE International/Reuters

Equity shares traded
Turnover by volume (million)



Indices and ratios

FTSE 100	5882.6	-58.9
FTSE 250	4854.7	+11.2
FTSE 350	2772.4	-22.4
FTSE All-Share	2673.92	-20.08
FTSE All-Share yield	2.92	2.93

FT 30	3551.3	-23.6
FTSE Non-Fins p/e	22.44	22.34
FTSE 100 Fut Dec	5868.0	-121.0
10 yr Gilt yield	4.49	4.58
Long gilt/equity yld ratio	[illegible]	1.54

Best performing sectors

1. Paper, Pckg & Printing +1.5
2. Health Care +1.4
3. Distributors +1.0
4. Support Services +0.4
5. Property +0.3

Worst performing sectors

1. Tobacco -3.2
2. Alcoholic Beverages -2.4
3. Gas Distribution -1.7
4. Banks: Retail -1.5
5. Insurance -1.5

GEC slips as saga rumbles on

COMPANIES REPORT

By Martin Brice and Steve Thompson

The saga of defence industry consolidation continued to drive shares in the weak market of the last day of 1998 trading.

GEC was off 4½ at 545p in the wake of US defence group Lockheed declining to comment on reports that it was to merge with GEC.

GEC is understood to have reduced its merger shortlist to four: BAe, France's Thomson-CSF, Lockheed Martin and Northrop Grumman.

British Aerospace was down 5 at 513p following reports that it was close to announcing details of its planned merger with Dasa of Germany.

Away *from* defence, the more volatile stocks exaggerated the decline in the Footsie. Schroder was off 68 at £10.99, while Stagecoach, another volatile stock, was off 11 at 241p in very thin volume.

Few FTSE 100 companies managed to advance until the last 10 minutes when a large basket trade occurred. Hayes closed the session the best performer in the market, *rising 24 to 530p after* spending much of the morning down 10p.

It benefited from the announcement of the £35m purchase of Axis Resources Holdings, a provider of IT *outsourcing services in the* UK. The move confirms the company's focus on such services.

Shares in Pearson Group, which owns the Financial Times, were actively traded *and vied for top spot* in the FTSE 100 for much of the session, eventually settling a net *13 higher at £11.93 after a* session high of £12.08.

Oil shares came under pressure throughout the morning, with BP surprising some dealers and slipping 11 to 897½p in spite of the wide*spread expectation that the* merger with Amoco will see a flurry of buying of the merged stock. Domestic and international tracker funds will have to obtain much bigger market weightings in the stock.

Turnover in BP was 15m shares, easily the highest individual *total in the mar*ket.

The big mortgage lenders were unsettled by fears that competition in the UK mortgage market will intensify in 1999. Abbey National *dropped 12 to £12.87.*

BICC was the best FTSE 250 performer as it ended up 5½ at 70½p, with revived hopes that Wassall would bid *for it said to* be behind the rise. Wassall was unchanged at 223½p.

Rexam also managed a strong performance, rising 7½ to 169½p as it said it remained confident of a successful outcome to *its* acquisition of Sweden's PLM, although *it* had not received certain confidential information it had asked for.

Hopes of lower interest rates next year helped property *stocks. Great Portland* was up 2 at 196p, while Chelsfield gained 6½ to 245p and Greycoat 3½ to 172p amid 7.8m traded.

British Land was off 7 at 447p. It announced the £240m purchase of 100 Liverpool Street and 8-10 Broadgate, London, taking its Broadgate holdings to 305,000 square metres.

Diageo was off 21 at 684p as the surprise resignation of LVMH head Bernard Arnault from the UK company's board rekindled specu*lation about the fate of the* French group's stake of almost 11 per cent in Diageo.

Recruitment and information technology companies enjoyed a strong day, with Quantica up 14 at 73p, while *Harvey Nash gained 25 to 310* and Northern Recruitment 9 higher at 124p. Staffware rose 77½ to 267½p. However, MSB International ran into profit-taking and fell 17½ to 340p.

*Its upbeat trading state*ment in mid-December seemed to put a spring in the step of the recruitment and staffing companies.

FT 30 INDEX

	Dec 30	Dec 29	Dec 24	Dec 23	Dec 22	Yr ago	*High	*Low
FT 30	3551.3	3574.9	3533.6	3555.1	3518.4	3289.3	4004.9	2790.6
Ord. div. yield	2.93	2.90	2.93	2.92	2.94	3.42	4.22	2.72
P/E ratio net	22.89	23.12	22.87	22.98	22.78	21.21	25.41	15.80
P/E ratio nil	22.80	23.03	22.77	22.88	22.69	20.93	25.19	15.71

FT 30 since compilation: high 4004.9 7/10/98; low 49.4 26/6/40. Base Date: 1/7/35.

FT 30 hourly changes

9	10	11	12	13	14	15	16	High	Low
3574.9	3548.5	3522.6	3518.1	3551.3	3551.3	3551.3	3551.3	3574.9	3494.5

STOCK MARKET TRADING DATA

	Dec 30	Dec 29	Dec 24	Dec 23	Dec 22	Yr ago
SEAQ bargains	28,359	35,290	16,193	42,685	50,500	23,284
Equity turnover (£m)†	-	1557.9	1017.7	2256.0	44,020	918.7
Equity bargains†	-	31,923	17,768	38,279	2527.1	24,787
Shares traded (m)†	-	395.9	288.0	624.0	771.3	380.6
Total market bargains‡	-	36,031	19,345	44,812	49,293	-
Total turnover (£m)‡	-	1799.8	1177.9	2586.2	2901.8	-
Total shs traded (m)‡	188.2*	436.7	319.8	699.9	665.0	-
Tradepoint turnover (£m)	4.0	1.4	0.4	4.3	9.2	4.1
Tradepoint shs traded(m)	0.7	1.0	0.2	2.2	4.2	0.8

†Excluding intra-market and overseas turnover but including Crest turnover. *UK only total at 6pm. ‡ UK plus intra-market turnover.

■ London market data

Rises and falls*		52 Week highs and lows		LIFFE Equity options	
Total Rises	795	Total Highs	83	Total contracts	12,311
Total Falls	403	Total Lows	37	Calls	8,469
Same	1,730			Puts	3,842

Dec 30 *Data based on Equity shares listed on the London Share Service.

FUTURES AND OPTIONS

■ FTSE 100 INDEX FUTURES (LIFFE) £10 per full index point

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Mar	6015.0	5868.0	-121.0	6015.0	5825.0	13080	183863
Jun	-	5908.0	-121.0	-	-	0	13536

■ FTSE 250 INDEX FUTURES (LIFFE) £10 per full index point

Mar	-	4901.0	+10.0	-	-	0	4839

■ FTSE 100 INDEX OPTION (LIFFE) (*5882) £10 per full index point — Dec 30

	5700 C	5700 P	5800 C	5800 P	5900 C	5900 P	6000 C	6000 P	6100 C	6100 P	6200 C	6200 P	6300 C	6300 P	6400 C	6400 P
Jan	[illegible]	71	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	77½	[illegible]	57	214½	[illegible]	282
Feb	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Mar	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	410
Apr	[illegible]	325	[illegible]	[illegible]	[illegible]	[illegible]	444	[illegible]	[illegible]	[illegible]	[illegible]	380	[illegible]	[illegible]	[illegible]	[illegible]
Jun†	[illegible]	[illegible]			[illegible]	[illegible]			[illegible]	[illegible]			[illegible]	532		

Calls 8,468 Puts 873

■ EURO STYLE FTSE 100 INDEX OPTION (LIFFE) £10 per full index point — Dec 30

Jan	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Feb	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Mar	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Jun	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Sept	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Calls 836 Puts 2,311 * Underlying index value. Premiums shown are based on settlement prices. † Long dated expiry months.

LONDON RECENT ISSUES: EQUITIES

Issue price p	Amt paid up	Mkt cap (£m)	1998 High	Low	Stock	Close price p	+/-	Net div.	Div cov.	Grs yld	P/E net
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

† Alternative Investment Market. § Placing price. * Introduction. For a full explanation of all other symbols please refer to The London Share Service notes.

RIGHTS OFFERS

Issue price p	Amount paid up	Latest Renun. date	1998 High	Low	Stock	Closing price p	+or-
15	nil	20/1	1pm	½pm	[illegible]	1pm	

FTSE GOLD MINES INDEX

	Dec 30	% chg on day	Dec 29	Year ago	Gross div yield %	P/E ratio	Total return	52 week High	Low
Gold Mines Index (28)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Africa (9)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Australasia (8)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Americas (11)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

FTSE - LEADERS & LAGGARDS

Percentage changes since December 31 1997 based on Wednesday December 30 1998.

Telecommunications	+94.81	FTSE All-Share	+10.90	Building Matls	-8.62
Tobacco	+46.54	Water	+9.06	Retailers, General	-9.05
Gas Distribution	+37.54	Health Care	+8.13	FTSE Fledgling	-9.21
Pharmaceuticals	+34.66	Insurance	+7.37	FTSE Fledgling ex IT	-10.25
Support Services	+33.07	Banks, Retail	+6.46	FTSE SmallCap	-10.48
Consumer Goods	+24.89	FTSE 350 Higher Yield	+5.90	Gen Industrials	-10.82
Life Assurance	+24.28	Financials	+5.35	FTSE SmallCap ex IT	-12.22
Electronic & Elect Equip	+22.25	Investment Trusts	+4.81	Extractive Industries	-13.08
Electricity	+22.60	Media	+3.18	Diversified Industrials	-13.19
Utilities	+22.05	FTSE 250	+1.40	Engineering	-16.19
Services	+21.34	Retailers, Food	+0.93	Property	-21.99
Transport	+19.66	FTSE 250 ex IT	+0.61	Distributors	-28.45
FTSE 350 Lower Yield	+18.12	Engineering, Vehicles	+0.61	Chemicals	-28.39
Alcoholic Beverages	+17.12	Breweries, Pubs & Rest	-1.97	Paper, Pckg & Printing	-31.04
FTSE 100	+14.58	Oil, Integrated	-2.00	Household Gds & Txts	-31.42
Food Producers	+13.78	Leisure & Hotels	-4.00	Oil Exploration & Prod	-61.04
Non-Financials	+13.03	Construction	-6.00		
FTSE 350	+12.28	RESOURCES	-6.41		

RISES AND FALLS YESTERDAY

	Rises	Falls	Same
British Funds	69	6	0
Other Fixed Interest	2	[illegible]	5
Mineral Extraction	74	32	50
General Manufacturers	114	76	304
Consumer Goods	70	34	190
Services	165	66	349
Utilities	10	[illegible]	18
Financials	120	58	208
Investment Trusts	148	107	322
Others	65	11	291
Totals	837	411	1736

Data based on those companies listed on the London Share Service.

FTSE Actuaries Share Indices — The UK Series

Produced in conjunction with the Faculty and Institute of Actuaries

	Dec 30	Day's chge%	Dec 29	Dec 24	Year ago	Gross yld%	Net cover	P/E ratio	Xd adj.	Total Return	1998 High		Low		Since compilation High		Low	
FTSE 100	5882.6	-1.0	5941.5	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
FTSE 250	4854.7	+0.2	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
FTSE 250 ex Inv Tr	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
FTSE 350	2772.4	-0.8	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
FTSE 350 ex Inv Tr	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
FTSE 350 Higher Yield	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
FTSE 350 Lower Yield	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
FTSE SmallCap	2070.92	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
FTSE SmallCap ex Inv Tr	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
FTSE All-Share	2673.92	-0.7	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
FTSE All-Share ex Inv Tr	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
FTSE Fledgling	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
FTSE Fledgling ex Inv Tr	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
FTSE All-Small	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
FTSE All-Small ex Inv Tr	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
FTSE AIM	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

■ FTSE Actuaries Industry Sectors

	Dec 30	Day's chge%	Dec 29	Dec 24	Year ago	Gross yld%	Net cover	P/E ratio	Xd adj.	Total Return	1998 High		Low		Since compilation High		Low	
10 RESOURCES	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
20 GEN INDUSTRIALS	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
30 CONSUMER GOODS	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
40 SERVICES	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
60 UTILITIES	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
69 NON-FINANCIALS	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
70 FINANCIALS	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
80 INVESTMENT TRUSTS	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
89 FTSE All-Share	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Information Technology	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

■ Hourly movements

	8.00	10.00	11.00	12.00	13.00	14.00	15.00	16.10	High/day	Low/day
FTSE 100	[illegible]	[illegible]	[illegible]	[illegible]	0.0	0.0	0.0	0.0	[illegible]	[illegible]
FTSE 250	[illegible]	[illegible]	[illegible]	[illegible]	0.0	0.0	0.0	0.0	[illegible]	[illegible]
FTSE 350	[illegible]	[illegible]	[illegible]	[illegible]	0.0	0.0	0.0	0.0	[illegible]	[illegible]
FTSE SmallCap	[illegible]	[illegible]	[illegible]	[illegible]	0.00	0.00	0.00	0.00	[illegible]	[illegible]
FTSE All-Share	[illegible]	[illegible]	[illegible]	[illegible]	0.00	0.00	0.00	0.00	[illegible]	[illegible]

FTSE INTERNATIONAL

Highs & Lows shown on a 52 week basis

WORLD STOCK MARKETS

EUROPE

AUSTRIA (Dec 30 / Sch)

BELGIUM/LUXEMBOURG (Dec 30 / Frs.)

CZECH REP (Dec 30 / Koruna)

DENMARK (Dec 30 / Kr)

FINLAND (Dec 30 / Mks)

FRANCE (Dec 30 / Frs.)

GERMANY (Dec 30 / Dm.)

GREECE (Dec 30 / Drachma)

IRELAND (Dec 30 / Punt)

ITALY (Dec 30 / Lira)

NORWAY (Dec 30 / Kroner)

POLAND (Dec 30 / Zloty)

PORTUGAL (Dec 30 / Escudo)

SPAIN (Dec 30 / Pta.)

NETHERLANDS (Dec 30 / Fl.)

SWEDEN (Dec 30 / Kronor)

SWITZERLAND (Dec 30 / Frs.)

TURKEY (Dec 30 / TL Lira)

PACIFIC

JAPAN (Dec 30 / Yen)

HONG KONG (Dec 30 / H.K.$)

INDONESIA (Dec 30 / Rupiah)

MALAYSIA (Dec 30 / MYR)

NEW ZEALAND (Dec 30 / NZ $)

SINGAPORE (Dec 30 / S$)

SOUTH KOREA (Dec 25 / Won)

TAIWAN (Dec 30 / TW $)

THAILAND (Dec 30 / Baht)

AUSTRALIA (Dec 30 / Aust$)

AMERICAS

CANADA

TORONTO (Dec 30 / Can $) 4 pm close

MONTREAL (Dec 30 / Can $) 4 pm close

MEXICO (Dec 30 / Peso) 12.30 pm

AFRICA

SOUTH AFRICA (Dec 30 / Rand)

FT/S&P ACTUARIES WORLD INDICES

The FT/S&P Actuaries World Indices are owned by FTSE International Limited, Goldman, Sachs & Co. and Standard & Poor's. The indices are compiled by FTSE International and Standard & Poor's in conjunction with the Faculty of Actuaries and the Institute of Actuaries.

NATIONAL AND REGIONAL MARKETS Figures in parentheses show number of lines of stock	TUESDAY DECEMBER 29 1998 US Dollar Index	Day's Change %	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	Local % chg on day	Gross Div. Yield	MONDAY DECEMBER 28 1998 US Dollar Index	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	DOLLAR INDEX 52 week High	52 week Low	Year ago (approx)
Australia (76)	194.83	0.9	171.64	141.88	169.38	212.07	0.2	3.45	193.07	170.89	141.29	168.53	211.68	219.96	163.88	198.08
Austria (21)	183.33	2.0	161.50	133.48	158.38	159.26	1.6	2.19	179.77	159.11	131.50	156.92	156.80	253.73	166.45	189.30
Belgium (22)	418.98	0.9	369.10	305.06	364.25	956.37	0.4	1.89	415.33	367.61	303.80	362.53	355.00	418.88	250.39	254.59
Brazil (32)	130.18	-2.4	114.68	94.79	113.17	289.47	-2.4	3.13	133.40	118.07	97.58	116.44	296.62	269.34	102.68	234.39
Canada (117)	197.56	-0.1	174.04	143.84	171.75	222.01	0.0	1.76	197.66	174.95	144.58	172.53	221.99	248.78	159.94	210.09
Denmark (34)	502.73	0.1	442.88	366.04	437.05	435.28	-0.2	1.81	501.98	444.30	367.19	438.17	436.18	537.33	420.12	449.53
Finland (28)	580.94	-0.8	511.78	422.98	505.05	619.71	-1.3	1.47	585.93	518.61	428.60	511.45	627.63	585.93	267.59	275.73
France (75)	322.01	0.8	283.68	234.46	279.94	283.25	0.4	2.21	319.43	282.73	233.65	278.83	282.15	345.16	225.24	236.56
Germany (55)	281.17	0.2	247.89	204.72	244.43	244.43	-0.2	1.33	280.70	248.45	205.33	245.02	245.02	325.61	218.59	229.10
Greece (36)	339.14	0.3	298.76	246.93	294.83	682.23	-0.2	1.24	338.12	299.27	247.33	295.14	683.58	339.14	211.47	–
Hong Kong, China (67)	311.51	0.1	274.43	226.81	270.81	309.87	0.1	3.95	311.12	275.37	227.58	271.57	309.40	382.55	196.64	346.96
Indonesia (26)	50.04	-1.8	44.08	36.44	43.50	244.05	-1.8	1.25	50.94	45.08	37.26	44.46	248.42	66.93	19.04	66.98
Ireland (16)	543.74	0.5	479.01	395.90	472.70	515.24	0.0	1.89	541.08	478.91	395.79	472.31	515.24	580.44	388.52	388.52
Italy (53)	178.11	0.1	156.90	129.68	154.84	220.23	-0.3	1.27	177.91	157.47	130.14	155.30	220.94	184.49	117.55	117.92
Japan (445)	98.58	1.4	86.84	71.77	85.70	71.77	0.9	1.04	97.26	86.08	71.14	84.90	71.14	109.73	76.83	93.08
Mexico (29)	1124.98	-1.2	991.05	819.09	978.00	12145.55	-0.8	2.11	1138.45	1007.65	832.76	993.74	12238.14	1803.07	787.15	1763.96
Netherlands (26)	531.24	0.7	467.99	386.79	461.83	458.78	0.2	2.07	527.77	467.13	386.05	460.69	455.70	582.38	391.03	410.36
New Zealand (18)	60.37	-0.1	53.18	43.95	52.48	61.27	-0.7	4.76	60.44	53.49	44.21	52.75	61.72	77.84	45.68	74.63
Norway (37)	220.44	-0.3	194.20	160.50	191.64	227.89	-0.7	2.54	221.03	195.64	161.68	192.94	229.37	357.71	161.86	314.68
Philippines (22)	89.76	2.5	79.08	65.36	78.04	175.13	2.5	0.84	87.57	77.51	64.06	76.44	170.86	106.98	42.48	78.83
Portugal (18)	255.57	0.0	225.14	186.08	222.18	299.98	-0.4	1.10	255.46	226.11	186.86	222.99	301.09	289.39	194.13	–
Singapore (41)	213.88	-0.2	188.42	155.73	185.94	183.37	-0.2	1.74	214.28	189.66	156.74	187.04	163.77	246.74	102.45	223.79
South Africa (38)	183.21	1.1	161.39	133.39	159.27	235.35	1.0	4.02	181.30	160.47	132.62	158.25	233.00	346.20	151.55	264.42
Spain (30)	400.52	0.3	352.83	291.61	348.19	431.62	-0.1	1.87	399.15	353.29	291.97	348.42	432.23	417.73	271.79	274.84
Sweden (46)	504.78	-0.1	444.69	367.53	438.84	604.34	-0.8	1.93	505.55	447.46	369.80	441.29	608.94	628.19	379.18	470.42
Switzerland (30)	420.20	0.0	370.18	305.95	365.31	355.10	-0.7	1.20	420.28	371.99	307.43	366.86	357.64	438.48	307.73	339.14
Thailand (35)	23.10	-3.9	20.35	16.82	20.08	33.17	-3.6	2.85	24.04	21.28	17.59	20.99	34.41	33.84	8.15	19.13
United Kingdom (207)	386.00	1.7	340.05	281.05	335.57	340.05	1.2	2.89	379.59	335.98	277.66	331.34	335.98	401.84	307.96	335.83
USA (619)	510.17	1.2	449.43	371.45	443.52	510.17	1.2	1.28	503.92	446.02	368.61	439.87	503.92	510.17	378.74	389.01
Americas (797)	452.45	1.2	398.59	329.43	393.34	383.85	1.2	1.31	447.24	395.86	327.15	390.39	379.41	452.45	343.40	353.56
Europe (734)	363.17	0.8	319.93	264.42	315.72	327.09	0.3	2.06	360.45	319.03	263.66	314.63	326.18	386.24	279.29	289.92
Eurobloc (344)	105.61	0.4	93.04	76.90	91.81	98.37	0.0	1.73	105.17	93.09	76.93	91.80	98.38	113.28	81.53	–
Nordic (145)	490.40	-0.3	432.02	357.06	426.33	494.63	-0.8	1.80	491.79	435.28	359.73	429.28	498.55	555.97	360.04	411.91
Pacific Basin (730)	106.33	1.1	93.67	77.42	92.44	80.59	0.7	1.55	105.12	93.04	76.89	81.76	80.02	119.48	82.88	103.53
Euro-Pacific (1464)	213.13	0.9	187.76	155.18	185.29	178.11	0.4	1.91	211.30	187.02	154.56	184.44	172.42	220.19	166.00	181.26
North America (736)	488.81	1.2	430.70	355.97	425.08	490.29	1.2	1.30	483.13	427.62	353.40	421.72	484.49	488.91	367.39	377.64
Europe Ex. UK (527)	339.42	0.3	299.01	247.13	295.07	310.80	-0.2	1.66	338.36	299.48	247.50	295.35	311.31	386.32	250.03	259.01
Europe Ex. Eurobloc (390)	98.60	1.1	86.86	71.79	85.72	96.38	0.8	2.41	97.51	86.30	71.32	85.11	96.82	109.93	77.40	–
Europe Ex. UK Ex. Eurobloc (183)	99.15	0.0	87.35	72.19	86.20	94.42	-0.7	1.43	99.18	87.79	72.55	86.57	95.04	109.21	75.16	–
Pacific Ex. Japan (285)	180.99	0.4	159.44	131.77	157.34	187.24	0.1	3.49	180.27	159.56	131.86	157.35	187.11	216.04	128.28	196.51
World Ex. Eurobloc (1955)	105.20	1.1	104.15	91.08	98.87	103.37	1.0	1.56	104.00	103.45	90.46	98.14	102.35	105.20	83.09	–
World Ex. US (1680)	211.96	0.8	186.72	154.33	184.27	177.71	0.4	1.93	210.27	186.11	153.81	183.55	177.05	221.91	165.95	185.15
World Ex. UK (2092)	300.85	1.0	264.85	218.90	261.37	267.20	0.8	1.44	297.79	263.57	217.82	259.93	265.11	300.65	234.66	242.80
World Ex. Japan (1654)	412.10	1.0	363.04	300.05	358.28	399.66	0.8	1.64	408.03	361.15	298.46	356.16	396.37	412.10	318.78	329.43
The World Index (2298)	307.98	1.0	271.32	224.24	267.76	273.95	0.8	1.58	304.83	269.81	222.98	266.08	271.89	307.98	242.08	250.86

Emerging markets:

IFC investable indices

Dollar terms

Dec 29 Market		Day's chg %	% Chg since 31/12/97
Latin America			
Argentina	606.98	+0.1	-27.7
Brazil	269.68	-2.4	-44.1
Chile	450.87	+0.5	-29.8
Colombia[1]	441.60	-0.8	-46.5
Mexico	479.02	-1.0	-39.2
Peru[2]	133.53	-1.1	-39.7
Venezuela[3]	445.59	-1.4	-51.3
East Asia			
China[4]	26.41	+1.0	-52.2
India[7]	63.88	-0.4	-23.4
Indonesia[4]	24.19	-1.7	-28.1
Korea[4]	62.80	-0.0	+119.7
Malaysia	87.85	+1.4	-3.6
Pakistan[8]	92.25	-1.1	-62.9
Philippines	122.32	+2.0	+8.5
Sri Lanka[9]	80.21	+0.7	-31.0
Taiwan, China[8]	116.79	+0.2	-17.2
Thailand	61.61	-2.7	+31.0
Europe			
Czech Rep	50.84	+1.0	-7.1
Greece	602.60	+0.3	+86.0
Hungary[9]	284.43	+0.7	-9.6
Poland[10]	536.91	+0.6	-10.0
Portugal	289.83	-0.2	+37.3
Russia	23.63	-0.3	-84.1
Slovakia	43.42	-0.2	-56.2
Turkey[11]	145.58	-0.2	-53.4
Mideast/Africa			
Egypt	64.04	+0.1	-31.3
Israel	102.28	-0.5	-16.0
Jordan	213.96	+0.9	+1.8
Morocco	167.94	+0.4	+28.8
S Africa[12]	124.81	+1.1	-30.7
Zimbabwe[9]	103.93	+0.3	-58.7
Regions			
Composite	185.85	-0.2	-24.5
Latin America	416.81	-1.1	-38.5
Asia	106.92	-0.1	-0.8
EMEA	113.58	+0.4	-23.1
Europe	148.54	+0.1	-21.2
Easta Europe	58.97	+0.5	-38.0
ME & Africa	53.43	+0.7	-25.3
Comp + Malay	188.55	-0.1	-23.4
Asia + Malay	107.83	+0.2	+0.1

Base date: Dec 1988=100 except those noted which are: (1)Feb 1 1991; (2)Dec 31 1992; (3)Jan 5 1992; (4)Dec 31 1992; (5)Jan 3 1992; (6)Jan 4 1991; (7)Nov 8 1992; (8)Sep 28 1990; (9)Mar 1 1991; (10) Dec 31 1992; (11)Dec 31 1990; (12)Dec 31 1992; (13)Dec 31 1992; (14)Dec 31 1992; (15)Aug 2 1993; (16) July 2 1993.

Latest indices were unavailable for this edition.

4 pm close December 30

NEW YORK STOCK EXCHANGE PRICES

- A - - B - - C - - D - - E - - F - - G - - H - - I - - J - - K - - L - - M - - N - - O - - P - Q - - R - - S - - T - - U - - V - - W -

- X - Y - Z -

1998 High	Low	Stock	Div	Yld %	P/E	Vol 100s	High	Low	Close Quote	Chng Prev Close
121 5/8	66 1/2	Xerox x	1.44	1.2		6745	120 1/2	118 1/2	119 1/2	-1 1/8
66 1/8	37 1/2	Xtra Corp			10	242	41 3/4	41	41 1/8	[illegible]
31 1/8	22 1/2	Yankee Egy	1.38	4.8	23	20	[illegible]	[illegible]	[illegible]	[illegible]
52 3/4	27 1/2	York Int x	0.48	1.2	21	617	[illegible]	[illegible]	[illegible]	[illegible]
24 1/2	6 1/8	Zapata			3	7747	13 1/2	[illegible]	[illegible]	[illegible]
30 1/2	22 3/4	Zenith Nat	1.00	4.3	17	175	23 1/4	[illegible]	23 1/2	
8	5	Zweig Inc	0.70	11.5		568	[illegible]	[illegible]	[illegible]	
14	8 1/2	ZweigFd	1.08	10.1		294	[illegible]	[illegible]	[illegible]	[illegible]
9	8 1/4	Zweig Tot	0.84	9.5		453	[illegible]	[illegible]	[illegible]	[illegible]

Price data supplied by Extel, part of FT Information

Yearly highs and lows for NYSE reflect the period from Jan 1 1998. Unless otherwise noted, rates of dividend are annual disbursements based on the latest declaration. Volume figures are unofficial.
d-new yearly low. P/E price-earnings ratio. vol- volume. u-new yearly high. x-ex-dividend or ex-rights. yld-yield. z-sales in full.
‡ Dealings suspended.

GLOBAL EQUITY MARKETS

US INDICES

Dow Jones	Dec 29	Dec 28	Dec 24	1998 High	1998 Low	Since compilation High	Since compilation Low
Industrials	9320.98	9226.75	9217.99	9374.27 (23/11)	7539.07 (31/8)	9374.27 (23/11/98)	41.22 (8/7/32)
Home Bonds	106.47	106.59	106.55	107.17 (8/12)	104.42 (11/5)	107.17 (8/12/98)	54.99 (1/10/81)
Transport	3086.39	3040.83	3044.98	3686.02 (16/4)	2345.00 (8/10)	3686.02 (16/4/98)	13.23 (8/7/32)
Utilities	312.57	312.27	314.54	320.51 (8/10)	262.66 (9/1)	320.51 (8/10/98)	10.50 (8/7/32)

DJ Ind. Day's high 9375.39 (9330.50) Low 9152.34 (9133.54) (Theoretical)
Day's high 9334.88 (9262.79) Low 9187.81 (9189.41) (Actual)

Standard and Poors	Dec 29	Dec 28	Dec 24	1998 High	1998 Low	Since compilation High	Since compilation Low
Composite‡	1241.81	1225.49	1226.27	1241.81 (29/12)	927.69 (9/1)	1241.81 (29/12/98)	4.40 (1/6/32)
Industrials‡	1494.08	1472.98	1471.91	1494.08 (29/12)	1077.40 (9/1)	1494.08 (29/12/98)	3.52 (30/6/32)
Financial‡	132.05	130.67	131.71	147.88 (14/7)	95.80 (8/10)	147.88 (14/7/98)	7.13 (4/4/74)
Others							
NYSE Comp.	597.05	589.01	588.07	600.75 (17/7)	477.20 (8/10)	600.75 (17/7/98)	4.04 (25/4/42)
Amex Comp.	670.75	666.58	666.49	763.87 (22/4)	563.75 (8/10)	763.87 (22/4/98)	524.20 (16/7/98)
NASDAQ Comp	2181.77	2180.30	2163.03	2181.77 (29/12)	1419.12 (8/10)	2181.77 (29/12/98)	54.87 (3/10/74)
Russell 2000	410.41	408.28	405.68	491.41 (21/4)	310.28 (8/10)	491.41 (21/4/98)	129.38 (7/12/90)

RATIOS

	Dec 24	Dec 18	Dec 11	Year ago
Dow Jones Ind. Div. Yield	1.65	1.71	1.72	1.79
	Dec 16	Dec 9	Dec 2	Year ago
S & P Ind. Div. yield	1.23	1.21	1.22	1.49
S & P Ind. P/E ratio	35.68	36.28	35.71	25.90

US DATA

MARKET ACTIVITY

[illegible]

NYSE TRADING ACTIVITY

ACTIVE STOCKS

Tuesday	Stocks traded	Close price	Day's change
AmOnLine	[illegible]	[illegible]	[illegible]
Halbrn	[illegible]	[illegible]	[illegible]
Unicom	[illegible]	[illegible]	[illegible]
AT&T	[illegible]	[illegible]	[illegible]
Compaq	[illegible]	[illegible]	[illegible]
Citgrp	[illegible]	[illegible]	[illegible]
Cendant	[illegible]	[illegible]	[illegible]
Amoco	[illegible]	[illegible]	[illegible]
Schlmb	[illegible]	[illegible]	[illegible]
Pfizer	[illegible]	[illegible]	[illegible]

BIGGEST MOVERS

[illegible]

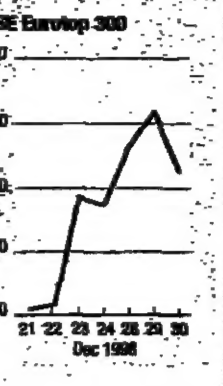
NASDAQ TRADING ACTIVITY

ACTIVE STOCKS

Tuesday	Stocks traded	Close price	Day's change
5 B App	11,911,800	8⅝	+6⅛
MCIWcm	10,911,100	74⅞	+2⅜
Intel	10,019,700	121⅜	−1⅛
DellCmp	9,998,800	74⅞	−⅞
FOREsy	8,944,000	15⅝	−2⅞
PETsMRT	8,680,800	11⅞	+1⅛
CiscoSys	8,085,000	93⅝	−⅞
Micsft	7,342,900	140⅛	−1⅞
Netscp	6,585,800	66⅝	−1⅝
HBO & Co	6,478,300	28⅜	+⅛

BIGGEST MOVERS

Tuesday	Close price	Day's change	Day's chge %
Ups			
Flenet	12¾	+2⅜	+23.8
BelFer	28	+3⅝	+14.3
CidwtrC	13⅝	+1⅝	+13.5
AdvFCm	10⅞	+1⅜	+13.4
Downs			
ADAC L	21⅝	−5⅛	−19.4
FOREsy	15⅝	−2⅞	−16.1
CarboCmca	17⅜	−2⅛	−10.7
CNET	52⅝	−6⅛	−10.4



JAPAN

	Dec 30	Dec 29	Dec 28	1998 High	1998 Low	Since compilation High	Since compilation Low
Nikkei 225	13842.17	13840.00	13778.09	17264.34	12879.97	38915.8	85.25

Day's high: 13918.55. Day's low: 13812.87.

TOKYO TRADING ACTIVITY — Volume : 127,080,000

ACTIVE STOCKS

Wednesday	Stocks traded	Close price	Day's change
NpStl	2,808,000	205	−3
[illegible]	2,893,000	108	
Sakura	2,800,000	298	+3
FujiBk	2,161,000	418	−9
MitElec	1,945,000	355	+3
[illegible]	1,814,000	87	
[illegible]	1,719,000	673	+9

BIGGEST MOVERS

Wednesday	Close price	Day's change	Day's chge %
Ups			
Oki El	333	+29	+9.5
[illegible]	2510	+210	+9.1
[illegible]	8850	+580	+7.2
[illegible]	95	+6	+6.7
Downs			
NCR Jp	609	−51	−7.7

FRANCE

	Dec 30	Dec 29	Dec 28	1998 High	1998 Low	Since compilation High	Since compilation Low
CAC 40	3942.66	3891.10	3873.10	4388.48	2852.54	4388.48	994.61

Day's high: 3942.66. Day's low: 3880.18.

PARIS TRADING ACTIVITY — Volume : 382,804,800

ACTIVE STOCKS

Wednesday	Stocks traded	Close price	Day's change
FTele	1,355,000	444	+8.7
TotalB	511,374	588	−5
Usinor	501,633	62.65	−0.85
BNP	496,823	480.2	+20.2
Axa	473,670	910	+20
RhonPA	424,736	287.8	+1.9

BIGGEST MOVERS

Wednesday	Close price	Day's change	Day's chge %
Ups			
ThmCSF	240	+14	+6.2
GrAndr	690	+40	+6.2
LegdPl	800	+30	+6.0
CPR	258	+13	+5.3
Downs			
DexFra	861	−19	−2.2

GERMANY

DAX [illegible]

FRANKFURT TRADING ACTIVITY

ACTIVE STOCKS

Wednesday	Stocks traded	Close price	Day's change
Dt Tel	418,441	54.8	+0.8
Chmdik	400,881	32.7	+1.2
DaimCh	395,917	164.5	−0.5
Siemns	234,511	107.5	−3.5
Lufthn	212,055	36.8	+0.1
Dt Bk	192,148	95.05	+0.85
BASF	181,491	33.8	−0.8
Bayer	181,210	66.65	−0.7
Veba	187,868	99.7	+1.7
VW	165,228	133	−4.6

BIGGEST MOVERS

Wednesday	Close price	Day's change	Day's chge %
Ups			
[illegible]	42.5	+6	+16.4
ZnPap	138	+13	+10.4
Altana	130	+10	+8.3
Linde	1025	+55	+5.7
Downs			
ProTV	77	−3	−3.7
VW	133	−4.6	−3.3
Herlitz	60	−2	−3.2
Siemens	107.5	−3.5	−3.2

UK

LONDON TRADING ACTIVITY

ACTIVE STOCKS

Wednesday	Stocks traded	Close price	Day's change
BP	15,345,450	887½	−11
Graycoat	7,755,000	172	+3½
Albert Fisher	6,078,494	5½	+½
Shell T&T	3,906,874	369½	−3½
Billiton	3,806,879	118½	−2½
BT	3,202,302	905½	−1
BTR	2,652,815	134	−1
Glaxo Wellcome	2,461,205	2068	−5
Smith.Bchm	2,380,379	840	−2
Midlands	2,331,258	1¼	

BIGGEST MOVERS

Wednesday	Close price	Day's change	Day's chge %
Ups			
Skillware	267½	+77½	+40.8
InterX	315	+65	+26
Quadrica	73	+14	+23.8
Osprey Com.	11	+2	+22.2
Downs			
Tusker Res.	¾	−¼	−25
Tempyle Grp.	3	−½	−14.3
Scot Int.	52	−6½	−11.1
GalaxyMedia	80½	−7	−8.2

INDEX FUTURES

S&P 500	Open	Latest	Change	High	Low	Est. vol.	Open int.
Mar	1253.60	1250.50	−4.18	1255.80	1250.10	50,905	370,405
Jun	–	1262.00	−4.00	–	1262.00	1,762	8,087

Nikkei 225	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Mar	13610.0	13700.0	−160.0	13900.0	13700.0	8,380	181,088
Jun	13760.0	13610.0	−150.0	13760.0	13610.0	17	32,080

Open interest figures for previous day.

CAC-40 (200 x index)	Open	Sett Price	Change	High	Low	Est. vol.	Open int.
Dec	3918.0	3918.9	+30.9	3920.0	3863.0	53,808	50,780
Jan	3922.8	3928.5	+30.5	3938.0	3877.0	35,281	144,197

DAX	Open	Sett Price	Change	High	Low	Est. vol.	Open int.
Mar	5085.0	5064.0	−2.0	5136.5	5036.0	8,118	32,070
Jun	5132.0	5100.0	+9.0	5151.0	5093.5	271	3,319

OMX	Open	Sett Price	Change	High	Low	Est. vol.	Open int.
Jan	715.00	705.00	−7.00	719.00	702.00	11,118	186,035
Feb	718.00	707.00	−8.00	718.00	706.50	138	–

EOEX	Open	Sett Price	Change	High	Low	Est. vol.	Open int.
Mar	7285.0	7170.0	−86.0	7292.0	7158.0	9,507	113,110
Jun	7224.0	7118.0	−110.0	7224.0	7119.0	112	2,008

WORLD MARKETS AT A GLANCE

Country	Index	Dec 30	Dec 29	Dec 28	1998 High	1998 Low	Yield	P/E
Argentina	General	17438.80	17590.88	17548.05	29485.47 23/3	12303.14 10/9	3.72	12
Australia	All Ordinaries	2784.2	2768.4	(c)	2881.40 15/4	2459.20 1/9	3.42	21
	All Mining	585.3	579.3	(c)	713.10 23/4	469.80 31/8		
Austria	Credit Aktien	(u)	392.88	(u)	584.34 28/5	345.44 8/10	2.05	13.3
Hungary	Bux	6307.67	6371.44	6368.80	9816.26 23/4	3775.02 21/9	na	na
India	BSE Sens.	3110.33	3048.29	3054.73	4280.96 21/4	2764.16 20/10		
	Dollar 200	618.37	598.78	600.70	918.82 21/4	557.80 20/10	na	na
Indonesia	Jakarta Comp.	398.04	398.73	408.18	554.10 3/2	256.83 21/9	2.46	20.7
Portugal	BVL 30	4794.70	4784.17	4803.94	6178.89 22/4	3589.08 2/10	2.12	28.4
	PSI 20	10888.92	10888.91	11059.46	14292.89 22/4	8114.51 2/10		
Russia	RTS	59.38	58.68	59.94	411.81 5/1	38.53 5/10	na	na
Singapore	SES All-S'pore	384.64	380.46	379.87	437.86 19/3	253.20 4/9	2.35	19.7

AMP and Cable & Wireless Optus outpaced ahead of being allocated increased weightings in the All Ords.

BUX index followed western bourses lower as investors mostly stayed away. Market leader MOL closed 1.7 per cent down.

Speculators active as market leader Indian Tobacco Company gained 7.8 per cent.

[illegible]

THE NASDAQ-AMEX MARKET GROUP

4 pm close December 30

[illegible]

THE NASDAQ-AMEX MARKET GROUP

[illegible]

AMEX

4 pm close December 30

[illegible]

EASDAQ

[illegible]

STOCK MARKETS

Profit-taking pulls Dow off record bid

AMERICAS

US shares were little changed in early trading as some succumbed to modest year-end selling, *writes John Labate in New York.*

The recent sharp gains that sent the Dow Jones Industrial Average to within 60 points of an all-time high on Tuesday gave way to a more cautious mood.

By early afternoon the Dow had slipped 3.35 to 9,317.63 while the broader Standard & Poor's 500 index fell 3.12 or 0.25 per cent at 1,238.69.

The high-tech sector remained weaker than most as investors skimmed the latest gains from the internet high-flyers of the past few days. The Nasdaq composite, which is weighted in technology shares, was down 11.30 at 2,170.47. Small-cap shares also weakened, sending the Russell 2000 index down less than 1 point at 410.13.

In the internet sector, shares of America Online were down $8¾ at $144½ while Amazon.com, the online bookseller, was off 14\frac{9}{16}$ to $318. The sell-off, however, appeared modest when compared with the strong runs of recent weeks.

Leading semiconductor companies and computer producers had a good day. Texas Instruments climbed $3¾ at $87¾ while National Semiconductor gained more than 5 per cent at $13½.

Hewlett-Packard, a Dow stock, rose $1¾ to $70.

Other gainers in the Dow included Aluminum Company of America, up 1\frac{11}{16}$ at $74¼. But the blue-chip index was weighed by the likes of International Paper, off $$\frac{7}{16}$ at $44½, and Walt Disney, down $¾ to 30\frac{1}{8}$.

TORONTO edged lower in early trading. Volume was low and shares mostly drifted down in line with the weaker opening trend on Wall Street. The 300 composite index was off 7.56 at 6,464.60 at noon.

Golds mostly improved but banks were mixed. Barrick gained 15 cents to C$30.40. Royal Bank of Canada was easier, slipping 20 cents to C$76.15 while Toronto-Dominion improved 10 cents to C$53.75.

Among industrials, Alcan Aluminium lost 20 cents at C$41.70 and Seagram shed C$1.45 at C$58.05.

SAO PAULO rallied modestly at the opening bell, helped by news that Tuesday's net outflow of foreign exchange had been lower than expected.

At midsession, the benchmark Bovespa index had managed to recoup part of Tuesday's 2.7 per cent loss with a gain of 51 to 6,766.

MEXICO CITY reversed early losses to leave the IPC index up 3.60 at 3,920.40 at midsession. Initial selling had been sparked by fiscal concerns ahead of the 1999 budget.

Banks shine in Jo'burg gains

SOUTH AFRICA

Shares in Johannesburg continued to gain ground, lifting the all share index 41.8 to 5,438.3, the best level for the benchmark since the start of December.

Volumes were low and most stocks marked time – except for financials, where another day of easing in the money markets kept hopes of an interest rate cut alive.

Bank stocks were again the main feature. Nedcor was busy, rising 260 cents or 2.5 per cent to R102.

Rate cuts aid Europe's recovery from lows

Helsinki has been the hottest bourse on the continent but preparations for the euro dominated the year, writes **Michael Morgan**

Nordic neighbours they may be, but the equity market performances in Finland and Norway have been poles apart this year.

The Helsinki bourse has been Europe's runaway winner, soaring 105 per cent in dollar terms, as measured by the FT/S&P-A indices.

Once again, Nokia has remained the market's driving force during a year in which the company has claimed to have overtaken Motorola of the US as the world's leading supplier of mobile phones.

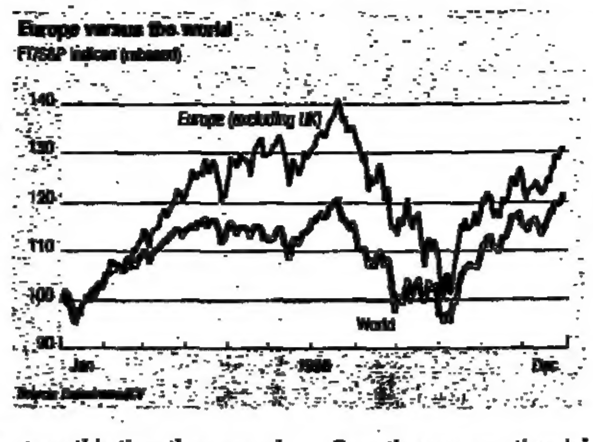
Moreover, unlike its Swedish rival Ericsson, which felt obliged to issue a dire profits warning this month, Nokia's success shows little sign of abating. The group, which reported an 85 per cent increase in third-quarter profits, is expected to post full-year profits of about FM12bn, up from FM8.37bn last year.

Oslo, by contrast, has been Europe's biggest loser, falling more than 30 per cent during a year in which crude oil prices halved, hitting the country's oil-dependent economy and feeding through to corporate profits.

Under intense pressure to consolidate its activities with its Nordic neighbours, the market has felt a chill wind from developments in Russia that has only exacerbated inflationary pressures and the risk of a hard economic landing next year.

The continental European markets generally made a concerted effort to shrug off worries about Asia in the early months of the year. By late July, they had recorded a 46 per cent rise from January's levels. But the laws of gravity were reimposed by a number of negative signals and by early October the markets had given up almost all their rises.

US Federal Reserve chairman Alan Greenspan's gloomy view that higher interest rates might be necessary to curb inflationary pressures was exacerbated by Russia's crisis, the personal problems faced by President Bill Clinton and another US hedge fund scare, this time the near collapse of Long-Term Capital Management.



But the final quarter saw a European recovery as two cuts in US interest rates during October lit the fuse for Wall Street's return to the all-time highs established during the summer. And in Europe, concerted action to cut interest rates by all 11 euro-zone countries helped the markets to recover much, though not all, of their autumn losses.

Over the year, continental European markets have registered a rise of 29 per cent, Slightly better than North America's 25 per cent rise and sharply up on the flat performance of Asia.

Among the individual markets, frenetic merger activity helped to make the Brussels bourse Europe's second best performer with a rise of 61 per cent. Analysts say that while growth might slow a little next year, investors can still expect strong returns of perhaps as much as 10 per cent.

Southern Europe provided other winners. Analysts point to short- and long-term interest rate convergence as an important driver of the Milan market, in spite of disappointing economic growth this year. Madrid had a good year, notwithstanding its exposure to Latin America.

Dublin and Paris also managed to outperform the region.

Zurich underperformed continental Europe, held back early in the year by the heavy weighting of the pharmaceutical giants in its indices. Russian exposure kept the lid on Frankfurt, while Copenhagen, Stockholm and Vienna were also underachievers.

Irrespective of individual performances, the common theme across much of Europe has been the increasingly frantic preparation for the introduction of the euro.

Many investors are bracing themselves for a volatile start to the year. Some analysts believe there could even be benefits for non-euro-zone markets like Zurich and London in the early part of 1999 as players seek safe havens for investments until they feel comfortable with the workings of the new single currency.

Earlier this month, David Bowers, European equity strategist at Merrill Lynch cautioned that European equities were about 5 per cent overvalued.

Next year may prove a difficult year with markets underestimating the extent of earnings disappointments to come next spring on the back of a severe slowdown in industrial activity, he said.

And Ian Harnett, European strategist at BT Alex Brown, is concerned that the 80 per cent gains since 1996 have already discounted many of the positives for European equities from monetary union.

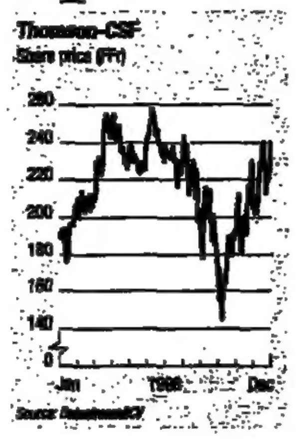
The reality, he said, would be a period of slow growth and low inflation, resulting in negative earnings growth for 1999.

Merger speculation lifts Paris

EUROPE

Another strong day for defence conglomerate Thomson-CSF helped lift PARIS on a dull day generally for European stock markets. The CAC-40 index ended up 51.56 at 3,942.66.

Thomson-CSF continued to climb amid merger speculation following Tuesday's confirmation that GEC of the UK was in talks with a range of companies, including CSF. The shares gained a further FFr14 to FFr240 for a two-day rise of 8.5 per cent.



BNP stood out within a mixed banking sector, adding FFr20.20 to FFr460.20. Sanofi led the losers list, slipping FFr20 to FFr920.

AMSTERDAM reversed early gains. At the opening bell, the AEX index broke above 1,200 for the first time since August but fell back in later trading to close off 8.29 at 1,186.38.

Financials led the way down. ING lost Fl 2.60 at Fl 114.50 and ABN Amro came off 90 cents to Fl 39.50. Aegon, one of the best performing stocks in global terms this year, closed on a sour note, dipping Fl 3.50 to Fl 230.60.

Steel leader Hoogovens was the day's main casualty, sliding Fl 2 or 3.7 per cent to Fl 52.

FRANKFURT ended 49.63 lower at 5,006.57 on the Xetra Dax index.

Deutsche Telekom continued to suffer from competition concerns following the announcement earlier this week of planned tariff cuts. The shares lost DM1.09 at DM54.88 for a net decline in three days of 2 per cent. Mannesmann came off DM4.80 at DM193.

HELSINKI fell for a second day as investors continued to take profits from Nokia, the telecommunications group.

The Hex index closed 63.42 or 1.1 per cent lower at 5,564.87 after losing 1.6 per cent on Tuesday. It has still managed to post a 68.5 per cent gain this year.

Nokia, which has risen steeply this month, dropped back FM10 or 1.6 per cent to FM620. The share price stands 220 per cent higher than at the start of the year.

ZURICH ended a subdued, shortened session marginally lower. The SMI index lost 42.3 to end at 7,160.7, 14.3 per cent higher than at the start of 1998.

Defensive stocks performed solidly on a day that featured a degree of profit-taking from other types of stock. Swisscom, the telecoms company, rose SFr1 to SFr575, while Nestlé, the foods group, finished SFr32 or 1.1 per cent higher at SFr2,990.

Written and edited by Jeffrey Brown, Michael Peel, Peter Hall and Paul Gregan

Muted Tokyo rides bond falls

ASIA PACIFIC

The decline in Japanese government bonds continued yesterday but equities in TOKYO were little affected in lacklustre trading, *writes Paul Abrahams.*

Long yields broke above 2 per cent for the first time in 15 months. Falling debt prices usually cause a drop in equities as investors switch into higher-yielding bonds, but the benchmark Nikkei 225 average ended just 4.73 lower at 13,842 after trading between 13,913 and 13,812.

The more representative Nikkei 300 index closed down 0.72 at 216. The Topix index of all first-section shares was off 1.84 at 1,087. However, the momentum was up, with 576 shares gaining and 490 down.

Part of the explanation for the muted response was that there was only a half day's trading. Turnover was very light at just 115m shares.

Nissho Iwai, the highly indebted trading group, announced a new Y600bn line of credit and the shares jumped Y6 to Y96.

However, some of the banks providing the financing fell. Sanwa tumbled Y12 to Y871, Dai-ichi Kangyo Y4 to Y605, Bank of Tokyo-Mitsubishi Y19 to Y1,170, and Industrial Bank of Japan Y15 to Y521, a new 1998 low.

In Osaka, the OSE index rose 158 to 14,804.

هدية من الأهرام